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Checklists and illustrative financial statements for corporations : a financial accounting and reporting practice aid, December 1997 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Gerard L. Yarnall

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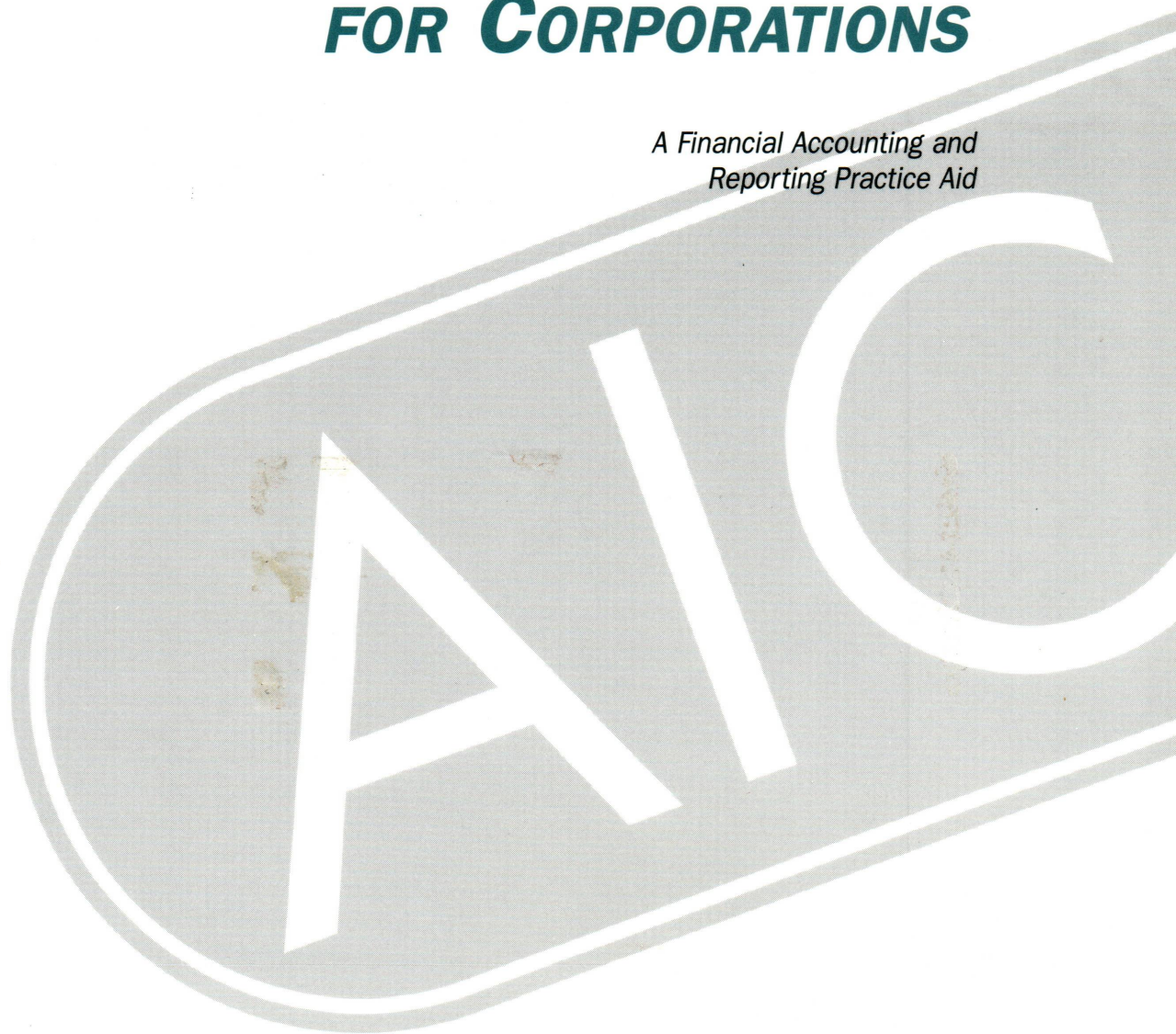
AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 1997 EDITION

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS

*A Financial Accounting and
Reporting Practice Aid*



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Edited by

Gerard L. Yarnall

Director, Accounting and Auditing Publications

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FSP Section 6000

Checklists and Illustrative Financial Statements for Corporations

Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of financial statements and by practitioners who audit, review or compile them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited financial statements.
- **Accountants' Compilation and Review Report Checklist**—For use by accountants in reporting on compiled or reviewed financial statements of nonpublic business enterprises.
- **Basic Financial Statement Formats**—Illustrating formats commonly used to present financial statements.
- **Illustrative Financial Statements**—Illustrating a full set of financial statements.

.02 These checklists and illustrative materials has been developed by the AICPA Accounting and Auditing Publications Staff to serve as nonauthoritative practice aids for use by preparers and auditors of financial statements. The financial statement and notes checklist includes disclosures that should be considered by commercial enterprises in preparing financial statements in conformity with generally accepted accounting principles (GAAP). The checklist does not include disclosures that are applicable only to entities in specific industries (such as insurance enterprises, not-for-profit organizations, etc.); nor does it include disclosures prescribed by pronouncements whose applicability to commercial enterprises is considered to be remote.

.03 Users of the financial statements and notes checklist should remember that it is a disclosure checklist only and not a comprehensive GAAP application or measurement checklist. Accordingly, application and measurement issues related to preparing financial statements in conformity with GAAP are not included in the checklist.

.04 The financial statements and notes checklist has been updated to include relevant disclosure guidance in accounting pronouncements issued through September 30, 1997. Those pronouncements include:

- Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*
- FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power*
- FASB Technical Bulletin No. 94-1, *Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring*
- AICPA Statement of Position (SOP) 97-1, *Accounting by Participating Mortgage Loan Borrowers*

- AcSEC Practice Bulletin 15, *Accounting by the Issuer of Surplus Notes*
- FASB Emerging Issues Task Force (EITF) Consensus Positions adopted at meetings of the EITF held through September 1997

.05 The auditor's and accountant's reporting checklists have been updated to include reporting requirements in pronouncements issued through September 30, 1997. Those pronouncements include:

- AICPA Statement on Auditing Standards (SAS) No. 82, *Consideration of Fraud in a Financial Statement Audit*
- AICPA Statement on Standards for Accounting and Review Services (SSARS) 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*

.06 These checklists contain numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
TB =	Technical Bulletin issued by the staff of the FASB
SOP =	AICPA Statement of Position
EITF =	FASB Emerging Issues Task Force Consensus
PB =	AICPA Practice Bulletin
AIN =	AICPA Accounting Interpretation
FASCON =	FASB Statement of Financial Accounting Concepts
TPA =	AICPA Technical Practice Aid
SAS =	AICPA Statement on Auditing Standards
SSARS=	AICPA Statement on Standards for Accounting and Review Services

Instructions

.07 These checklists consist of a number of questions or statements that are accompanied by references to applicable authoritative pronouncements. The checklists provide spaces for checking off or initialing each question or point to indicate that it has been considered. Users should check or initial—

- **Yes**—If the disclosure is required and has been made appropriately.
- **No**—If the disclosure is required but is not made.
- **N/A (Not Applicable)**—If the disclosure is not required to be made.

Users may find it helpful to include references to the place where each disclosure for which a "Yes" is indicated can be found in the financial statements. It may also be helpful to include either on the checklist or elsewhere the reasons that items marked "N/A" do not apply in the circumstances of the particular report.

.08 It is important that the effect of any “No” response be considered on the auditor’s report. A “No” response that is material to the financial statements may warrant the issuance of a qualified or adverse report on the financial statements. (See paragraphs 35–60 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.35–60]. If a “No” response is indicated, the authors recommend that a notation be made in the margin to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements) or to indicate the effect that the response will have on the auditor’s report.

.09 The financial statements and notes checklist is organized into six discrete sections. Disclosures listed in the *General, Balance Sheet, Income Statement, Statement of Cash Flows*, and *Summary of Significant Accounting Policies* sections are common to most corporations. Those listed in the *Other Financial Statement Disclosures* section are required only when circumstances dictate. Carefully review the topics listed and consider whether they represent potential disclosure items for the reporting entity for which you are preparing or auditing financial statements. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked “N/A” or left blank. For example, if the reporting entity changed an accounting principle during the year, place a check mark by *Other Financial Statement Disclosures*, section C, “Changes in Accounting” and complete that section of the checklist. On the other hand, if the reporting entity did not enter into any business combinations accounted for by the pooling of interests method during the year, do not place a check mark by *Other Financial Statement Disclosures*, section A, “Business Combinations—Pooling of Interests Method” and skip that section when completing the checklist.

.10 The use of these or any other checklists requires the exercise of individual professional judgment. These checklists are not substitutes for original authoritative pronouncements. Users of these checklists and illustrative materials are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative materials may not include all disclosures and presentation items promulgated, nor do they represent minimum standards or requirements. Users of the checklists and illustrative materials are encouraged to tailor them as required to meet specific circumstances of each particular engagement.

.11 These checklists and illustrative materials have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

Note: This publication was extracted from sections 6000 through 6400 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 6100

Financial Statements and Notes Checklist

*Place ✓ by
Sections Applicable*

- General
 - A. Titles and References _____
 - B. Comparative Financial Statements _____
 - C. Consolidated Financial Statements _____
 - D. Nature of Operations _____
- Balance Sheet
 - A. General _____
 - B. Cash _____
 - C. Certain Investments in Debt and Equity Securities _____
 - D. Receivables _____
 - E. Inventories _____
 - F. Investments Accounted for by the Equity Method _____
 - G. Property and Equipment _____
 - H. Deferred Income Tax Assets and Liabilities _____
 - I. Other Assets and Deferred Charges _____
 - J. Current Liabilities _____
 - K. Notes Payable and Other Debt _____
 - L. Shareholders' Equity _____
 - M. Changes in Shareholders' Equity _____
- Income Statement
 - A. Revenue and Expenses _____
 - B. Income Taxes _____
 - C. Discontinued Operations _____
 - D. Extraordinary Items _____
 - E. Earnings Per Share _____
 - F. Comprehensive Income _____
- Statement of Cash Flows
- Summary of Significant Accounting Policies
 - A. Accounting Policies _____
 - B. Certain Significant Estimates _____
- Other Financial Statement Disclosures
 - A. Business Combinations—Pooling of Interests Method _____
 - B. Business Combinations—Purchase Method _____
 - C. Changes in Accounting _____
 - D. Commitments and Contingencies _____
 - E. Current Vulnerability Due to Certain Concentrations _____
 - F. Defined Benefit Pension Plans _____
 - G. Defined Benefit Postretirement Benefit Plans _____
 - H. Defined Contribution Pension Plans _____

*Place ✓ by
Sections Applicable*

I. Defined Contribution Postretirement Benefit Plans	_____
J. Employee Stock Ownership Plans	_____
K. Environmental Remediation Liabilities	_____
L. Extinguishment of Debt	_____
M. Financial Instruments	_____
N. Foreclosed Assets	_____
O. Foreign Currency Translation	_____
P. Futures Contracts	_____
Q. Impaired Loans	_____
R. Impairment of Long-Lived Assets	_____
S. Leases—Lessors	_____
T. Leases—Lessees	_____
U. Multiemployer Pension Plans	_____
V. Multiemployer Postretirement Benefit Plans	_____
W. Nonmonetary Transactions	_____
X. Postemployment Benefits	_____
Y. Related-Party Transactions and Economic Dependency	_____
Z. Research and Development Arrangements	_____
AA. Restructuring Charges	_____
BB. Segment Information	_____
CC. Stock Compensation Plans	_____
DD. Subsequent Events	_____
EE. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	_____
FF. Troubled Debt Restructurings—Creditors	_____
GG. Troubled Debt Restructurings—Debtors	_____

Yes No N/A

General

A. Titles and References

- | | | | |
|---|---|--|--|
| <p>1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:</p> <p style="margin-left: 20px;">a. Balance sheet?</p> <p style="margin-left: 20px;">b. Statement of income (operations)?</p> <p style="margin-left: 20px;">c. Statement of retained earnings or changes in shareholders' equity?</p> <p style="margin-left: 20px;">d. Statement of cash flows?</p> <p style="margin-left: 20px;">e. Description of accounting policies?</p> <p style="margin-left: 20px;">f. Notes to the financial statements?
[Generally Accepted]</p> <p>2. Is each financial statement suitably titled?
[Generally Accepted]</p> <p>3. Does each statement include a reference to the notes, which are an integral part of the financial statements?
[Generally Accepted]</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|---|---|--|--|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Comparative Financial Statements			
1. If comparative statements are presented, are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
2. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
C. Consolidated Financial Statements			
1. If consolidated statements are presented, is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated? [SFAS 94, par. 13 (AC C51.103)]	_____	_____	_____
3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed? [ARB 51, par. 4 (AC C51.107)]	_____	_____	_____
D. Nature of Operations			
1. Is a description of the major products and services the reporting entity sells or provides and the principal markets, including the location of those markets, disclosed? [SOP 94-6, par. 10]	_____	_____	_____
2. If the reporting entity operates in more than one business, is the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]	_____	_____	_____

Balance Sheet

The following table summarizes the titles used to describe the statement of assets, liabilities, and equity in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

BALANCE SHEET TITLE

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Balance Sheet	564	562	562	560
Statement of Financial Position	30	32	33	35
Statement of Financial Condition	6	6	5	5
Total Companies	600	600	600	600

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
A. General			
1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities? [ARB 43, Ch. 3A, pars. 2–8 (AC B05.103–.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501–.503)]	_____	_____	_____
2. Are assets not expected to be realized during the current operating cycle classified as noncurrent? [ARB 43, Ch. 3A, pars. 5 and 6 (AC B05.106 and .107)]	_____	_____	_____
B. Cash			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
2. Are restrictions on cash properly disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
3. Are bank overdrafts reclassified to and presented separately in current liabilities? [Generally Accepted]	_____	_____	_____
4. Are held checks (those written before but not released until after the balance sheet date) reclassified to accounts payable? [Generally Accepted]	_____	_____	_____
5. Are significant concentrations of credit risk arising from cash deposits in excess of federally insured limits disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
C. Certain Investments in Debt and Equity Securities			
1. If the reporting entity presents a classified balance sheet, are all trading securities reported as current assets? [SFAS 115, par. 17 (AC I80.116)]	_____	_____	_____
2. Are held-to-maturity securities and available-for-sale securities reported separately and, if a classified balance sheet is presented, classified as current or noncurrent assets as appropriate? [SFAS 115, par. 17 (AC I80.116)]	_____	_____	_____

Practice Tip

Presentation of individual amounts for trading securities, held-to-maturity securities, and available-for-sale securities on the face of the balance sheet is not required as long as the information is provided in the notes to the financial statements.

- | | | | |
|--|-------|-------|-------|
| 3. For investments in debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made by major-security type, for each balance sheet presented: | | | |
| a. Aggregate fair value? | _____ | _____ | _____ |
| b. Gross unrealized holding gains or losses? | _____ | _____ | _____ |
| c. Amortized cost basis?
[SFAS 115, par. 19 (AC I80.118)] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. For investments in debt securities classified as available-for-sale or held-to-maturity:			
a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
5. For each period for which an income statement is presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses from those sales?	_____	_____	_____
b. The basis on which cost was determined in computing realized gain or loss (i.e., specified identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The change in net unrealized holding gain or loss on available-for-sale securities that is included in the separate component of shareholders' equity?	_____	_____	_____
e. The change in net unrealized holding gain or loss on trading securities that is included in earnings? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
6. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:			
a. Amortized cost of the sold or transferred security?	_____	_____	_____
b. Related realized or unrealized gain or loss?	_____	_____	_____
c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	_____	_____	_____
7. For those entities that enter into options with no intrinsic value at acquisition in order to purchase securities accounted for under SFAS 115, is the accounting policy for premiums paid (time value) to acquire options classified as held-to-maturity or available-for-sale disclosed? [EITF 96-11]	_____	_____	_____
8. Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____

D. Receivables

1. Are accounts and notes receivable from officers, employees, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	_____	_____	_____
---	-------	-------	-------

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are unbilled receivables (e.g., unbilled costs and fees under cost-plus-fixed-fee contracts) shown separately from billed receivables? [ARB 43, Ch. 11A, par. 4]	_____	_____	_____
3. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
4. Are unearned discounts (other than cash or quantity discounts and the like), finance charges, and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.105)]	_____	_____	_____
5. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
c. Is amortization of discount or premium reported as interest in the income statement?	_____	_____	_____
d. Are issue costs reported on the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
6. Are significant concentrations of credit risk arising from receivables disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____

E. Inventories

1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [Generally Accepted]	_____	_____	_____
2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]	_____	_____	_____
3. Is the basis for stating inventory disclosed (e.g., lower of cost or market)? [ARB 43, Ch. 4, par. 14 (AC I78.120); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
5. Are the net losses on firm purchase commitments for goods for inventory disclosed in the income statement? [ARB 43, Ch. 4, par. 17 (AC I78.121 and .122)]	_____	_____	_____

Practice Tip

Disclosures required of entities using LIFO of annual income, profit, or loss of any inventory basis other than LIFO may be made only in the notes to the financial statements or in a supplementary schedule and should be excluded from the face of the financial statements. (See IRS Regulation 1.472-2(e) for details of LIFO conformity disclosure requirements.)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
F. Investments Accounted for by the Equity Method			
1. Are investments in common stock shown in the balance sheet of the investor as a single amount, and is the investor's share of earnings or losses of the investee shown in the income statement as a single amount (except for extraordinary items or prior period adjustments)? [APB 18, par. 19 (AC I82.109c)]	_____	_____	_____
2. Are the following disclosures made for investments in common stock accounted for by the equity method:			
a. The name of each investee and their percentage of ownership of common stock?	_____	_____	_____
b. The accounting policies of the investor with respect to investments in common stock?	_____	_____	_____
c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets?	_____	_____	_____
d. The accounting treatment of the difference described in c.?	_____	_____	_____
e. For investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)	_____	_____	_____
f. For investments in common stock, corporate joint ventures, or other investments which are in the aggregate material in relation to the financial position or results of operations of an investor, summarized information as to assets, liabilities, and results of operation of the investees as appropriate?	_____	_____	_____
g. Material effects of conversions of outstanding convertible securities, exercises or contingent issuances? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is not considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110 fn. 14)]	_____	_____	_____
4. If the reporting entity holds less than 20 percent of the voting stock of a significant investee corporation and accounts for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110 fn. 14)]	_____	_____	_____

Practice Tip

The significance of an investment to the investor's financial position and results of operations should be considered in evaluating the extent of disclosures relating to the financial position and results of operations of an investee.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
G. Property and Equipment			
1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
2. If property and equipment is impaired and the reporting entity recognizes an impairment loss, are the following disclosed:			
a. A description of the impaired assets and the facts and circumstances leading to impairment?	_____	_____	_____
b. The amount of the impairment loss and how fair value was determined?	_____	_____	_____
c. The caption in the income statement in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
d. If applicable, the business segments affected? [SFAS 121, par. 14 (AC I08.133)]	_____	_____	_____
H. Deferred Income Tax Assets and Liabilities			
1. Are deferred tax assets and liabilities classified as current or noncurrent based on the classification of the related asset or liability? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
2. Are deferred tax assets not related to an asset or liability, including those related to carryforwards, classified according to the expected reversal date of the temporary difference pursuant to SFAS 37? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
3. For each particular tax-paying component of the reporting entity and within each particular tax jurisdiction:			
a. Are all current deferred tax liabilities and assets offset and presented as a single amount?	_____	_____	_____
b. Are all noncurrent deferred tax liabilities and assets offset and presented as a single amount? [SFAS 109, par. 42 (AC I27.141)]	_____	_____	_____
4. Is the valuation allowance for each particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that jurisdiction on a pro rata basis? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
5. Are the components of the net deferred tax liability or asset recognized in the balance sheet disclosed as follows:			
a. The total of all deferred tax liabilities (measured as described in paragraph 17b of SFAS 109)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The total of all deferred tax assets (measured as described in paragraph 17c and d of SFAS 109)?	_____	_____	_____
c. The total valuation allowance recognized for deferred tax assets (measured as described in paragraph 17e of SFAS 109)? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
6. Is the net change during the year in the valuation allowance disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
7. If the reporting entity is a public enterprise :			
a. Is the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed?	_____	_____	_____
b. If the reporting entity is not subject to income taxes because its income is taxed directly to its owners, is that fact and the net difference between the tax bases and reported amounts of the enterprises' assets and liabilities disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
8. If the reporting entity is a nonpublic enterprise , are the types of temporary differences and carryforwards that give rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____

Practice Tip

SFAS 109 requires that deferred taxes be determined separately for each tax-paying component in each tax jurisdiction (for example, federal, state, or local). A component may be an individual entity or a group of entities that is consolidated for tax purposes. A valuation allowance for deferred tax assets in a particular tax jurisdiction should be allocated between current and noncurrent assets for that jurisdiction on a pro rata basis.

I. Other Assets and Deferred Charges

1. Do disclosures relating to intangible assets include the method and period of amortization? [APB 16, par. 95e (AC B50.164e); APB 17, par. 30 (AC I60.111); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
2. Do disclosures relating to intangible assets include the reason for any extraordinary reduction of the value and future benefits of intangible assets recognized during the period? [APB 17, par. 31 (AC I60.112)]	_____	_____	_____
3. For computer software to be sold, leased, or otherwise marketed, are the following disclosed:			
a. The amount of unamortized computer software costs included in each balance sheet presented? [SFAS 86, par. 11a (AC Co2.110a)]	_____	_____	_____
b. The amount charged to expense for amortization of these costs and for amounts written down to net realizable value disclosed in each income statement presented? [SFAS 86, par. 11b (AC Co2.110b)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The amount of research and development expense incurred for computer software to be sold, leased, or otherwise marketed charged to expense in each period for which an income statement is presented? [SFAS 86, par. 12 (AC Co2.111)]	_____	_____	_____
4. Is a payment by an S Corporation to the IRS to retain its fiscal year for tax purposes classified as an asset (deposit)? [EITF 88-4]	_____	_____	_____

J. Current Liabilities

Practice Tip

Section B05 of the FASB *Current Text* contains a detailed discussion of the nature of items that should be included in the current liabilities caption when a classified balance sheet is presented.

1. Are significant categories of current liabilities, such as accounts payable, accrued expenses, deferred revenue, interest payable, and amounts due to officers and employees segregated and presented separately? [Generally Accepted]	_____	_____	_____
2. If a classified balance sheet is presented, is a total for current liabilities shown? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
3. Are short term obligations expected to be refinanced reclassified to long term liabilities? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
4. If the reporting entity has not accrued compensated absences (SFAS 43) because the amount cannot be reasonably estimated, is that fact disclosed? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
5. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor's carrying amount of the debt, is the debt obligation classified as a current liability? [EITF 95-15]	_____	_____	_____
6. Are borrowings outstanding under revolving credit agreements that include both a subjective acceleration clause and a requirement to maintain a lock-box arrangement, whereby remittances from the borrower's customers reduce the debt outstanding, classified as short-term obligations? [EITF 95-22]	_____	_____	_____

K. Notes Payable and Other Debt

1. Are major categories of debt (notes payable to banks, mortgages payable, notes to related parties) identified on the balance sheet or in the notes to the financial statements? [Generally Accepted]	_____	_____	_____
--	-------	-------	-------

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are interest rates, maturities, conversion features, and other significant terms (for example, subordinated features) of long term debt disclosed? [Generally Accepted]	_____	_____	_____
3. Are terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral, covenants to reduce debt, maintain working capital, and restrict dividends disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
4. Are the following disclosed for each of the five years following the latest balance sheet presented:			
a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria set forth in SFAS 47 and that have been recognized in the purchaser's balance sheet?	_____	_____	_____
b. The combined aggregate amount of maturities and sinking fund requirements for all long term borrowings? [SFAS 47, par. 7 (AC C32.105)]	_____	_____	_____
5. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a direct deduction from or addition to the face amount of the note?	_____	_____	_____
b. Is the effective interest rate disclosed?	_____	_____	_____
c. Is the face amount of the note disclosed?	_____	_____	_____
d. Is amortization of the discount or premium reported as interest in the income statement?	_____	_____	_____
e. Are issue costs reported as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
6. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109)]	_____	_____	_____
7. If short-term obligations have been excluded from current liabilities pursuant to SFAS 6, do disclosures include:			
a. A general description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued, or expected to be issued, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
8. Are long-term obligations that are or will be callable by the creditor, either because the debtor's violation of the debt agreement at the balance-sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, reclassified to current unless one of the following conditions is met:			
a. The creditor has waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The obligation contains a grace period within which the debtor may cure the violation, and it is probable that the violation will be cured within that period, thus preventing the violation from becoming callable? [SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
9. If an obligation under question 8 above is included in long-term liabilities (or in the case of an unclassified balance sheet is included as a long-term liability in the disclosure of debt maturities), are the circumstances disclosed? [SFAS 78, par. 5 (AC B05.118); see also EITF 86-30]	_____	_____	_____
10. If debt was considered to be extinguished under the provisions of SFAS 76 prior to the effective date of SFAS 125, do disclosures include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished at the end of the period as long as the debt remains outstanding? [SFAS 125, par. 17b (AC L35.109)]	_____	_____	_____
11. If assets are set aside after the effective date of SFAS 125 solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on those assets? [SFAS 125, par. 17c (AC L35.109)]	_____	_____	_____
12. If the reporting entity has borrowed funds in the form of participating mortgage loans, are the following disclosed in the financial statements:			
a. The aggregate amount of participating mortgage obligations at the balance-sheet date, with separate disclosure of the aggregate participation liabilities and related debt discounts?	_____	_____	_____
b. Terms of the participations by the lender in either the appreciation in the market value of the mortgaged real estate project or the results of operations of the mortgaged real estate project, or both? [SOP 97-1]	_____	_____	_____

L. Shareholders' Equity

The following table summarizes the titles used to describe the equity section in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

TITLE OF EQUITY SECTION

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Shareholders' Equity	250	248	255	257
Stockholders' Equity	263	256	249	249
Shareowners' Equity	20	23	24	20
Common Stockholders' Equity	12	16	13	12
Shareholders' Investment	15	14	9	15
Common Shareholders' Equity	8	10	8	7
Stockholders' Investment	7	4	9	10
Other or no title	25	29	33	30
Total Companies	600	600	600	600

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. For each class of stock, do disclosures include the number of shares authorized, issued, and outstanding, and par or stated value per share? [Generally Accepted]	_____	_____	_____
2. Are classes of capital stock presented in order of priority in liquidation? [Generally Accepted]	_____	_____	_____
3. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]	_____	_____	_____
4. Do disclosures include the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented? [SFAS 129, par. 5 (AC C24.103)]	_____	_____	_____
5. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liquidation preference disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short," rather than on a per share basis or in the notes to the financial statements? [SFAS 129, par. 6 (AC C24.104)]	_____	_____	_____
6. Are the following disclosed on the face of the balance sheet or in the notes:			
a. The aggregate or per-share amounts at which preferred stock may be called or are subject to redemption through sinking-fund operations or otherwise?	_____	_____	_____
b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends? [SFAS 129, par. 7 (AC C24.105)]	_____	_____	_____
7. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or redeemable dates in each of the five years following the date of the latest balance sheet? [SFAS 129, par. 8 (AC C24.106)]	_____	_____	_____
8. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
9. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
10. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. Are the carrying basis, cost and number of shares of any treasury stock held by the reporting entity disclosed? [Generally Accepted]	_____	_____	_____
12. If treasury stock is purchased for purposes other than retirement or if ultimate disposition has not yet been decided is its cost:			
a. Shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings, or	_____	_____	_____
b. Accorded the accounting treatment appropriate for retired stock, or	_____	_____	_____
c. Shown as an asset in accordance with paragraph 4 of Chapter 1A of ARB 43? [APB 6, par. 12b (AC C23.103)]	_____	_____	_____
13. In the rare circumstances in which treasury stock is shown as an asset, are the circumstances for that classification disclosed? [ARB 43, Ch. 1A, par. 4 (R36.105)]	_____	_____	_____
14. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made? [APB 6, par. 13 (C23.104)]	_____	_____	_____

The following table summarizes the presentations of treasury stock in the balance sheets of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

TREASURY STOCK—BALANCE SHEET PRESENTATION

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Common Stock				
Cost of treasury stock shown as stockholders' equity deduction	350	349	342	349
Par or stated value of treasury stock deducted from issued stock of the same class	19	27	23	16
Cost of treasury stock deducted from stock of the same class	4	6	2	9
Other	1	3	6	6
Total Presentations	374	385	373	380
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	4	3	2	2
Par or stated value of treasury stock deducted from issued stock of the same class	1	—	2	1
Other	—	1	2	2
Total Presentations	5	4	6	5
Number of Companies				
Disclosing treasury stock	373	384	373	380
Not disclosing treasury stock	227	216	227	220
Total Companies	600	600	600	600

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 15. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), exceeds unrecognized prior-service cost, is the excess (which would represent a net loss not yet recognized as net periodic pension cost) reported as a separate component (i.e., a reduction) of equity, net of any tax benefits that result from considering such losses as temporary differences, for purposes of applying the provisions of SFAS 87, paragraph 37 (AC I27) and SFAS 109, paragraph 287?
[SFAS 87, par. 37 (AC P16.131)] | _____ | _____ | _____ |

M. Changes in Shareholders' Equity

The following table summarizes the method used to present changes in retained earnings in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

PRESENTATION OF CHANGES IN RETAINED EARNINGS

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Statement of stockholders' equity	505	497	488	481
Separate statement of retained earnings	32	33	36	45
Combined statement of income and retained earnings	15	19	23	24
Schedule in notes	48	51	53	50
Total Companies	600	600	600	600

- | | | | |
|--|-------|-------|-------|
| 1. Are changes in the separate component accounts of shareholders' equity disclosed?
[APB 12, par. 10 (AC C08.102)] | _____ | _____ | _____ |
| 2. Are changes in the number of shares of equity securities disclosed?
[APB 12, par. 10 (AC C08.102)] | _____ | _____ | _____ |
| 3. If prior-period adjustments have been recorded during the current year, are their resulting effects (both gross and net of applicable income taxes and including the amounts of income tax applicable to the prior period adjustments) appropriately disclosed? | _____ | _____ | _____ |
| a. For single-period statements, does the disclosure indicate the effects of such restatement on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period? | _____ | _____ | _____ |
| b. If financial statements of more than one period are presented, does disclosure include the effects for each of the periods presented in the statements?
[APB 9, par. 26 (AC A35.107)] | _____ | _____ | _____ |

Practice Tip

Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure would ordinarily not be required.

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 4. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include: | | | |
| a. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year? | _____ | _____ | _____ |
| b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated?
[SFAS 16, par. 15 (AC A35.111)] | _____ | _____ | _____ |
| 5. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter, disposals of segments of a business, extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year end adjustments that are material to the results of that quarter disclosed in a note to the financial statements?
[APB 28, par. 31 (AC I73.147)] | _____ | _____ | _____ |
| 6. If the reporting entity is a publicly traded company, is disclosure about the effect of accounting changes on interim periods that are required by paragraphs 23–26 of APB 28 or by paragraphs 9–13 of SFAS 3 included in a note to the financial statements for the fiscal year in which the change is made?
[SFAS 3, par. 14 (AC I73.147)] | _____ | _____ | _____ |

Income Statement

The following table summarizes the titles used to describe the income statement in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

INCOME STATEMENT TITLE

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Income	308	298	291	280
Operations	162	167	180	189
Earnings	125	127	117	116
Other	5	8	12	15
Total Companies	600	600	600	600

A. Revenue and Expenses

- | | | | |
|--|-------|-------|-------|
| 1. Are the important components of income, such as sales or other sources of revenue, cost of sales, selling and administrative expenses, interest expense and income taxes, separately disclosed on the face of the income statement?
[Generally Accepted] | _____ | _____ | _____ |
| 2. Is the following information concerning interest costs disclosed: | | | |
| a. For accounting periods in which no interest is capitalized, the amount of interest cost incurred and charged to expense during the period? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
3. Are interest costs associated with product financing arrangements identified separately? [SFAS 49, par. 9 (AC D18.107)]	_____	_____	_____
4. Are research and development costs charged to expense when incurred and appropriately disclosed? [SFAS 2, pars. 12 and 13 (AC R50.108 and .109)]	_____	_____	_____
5. Do the disclosures for advertising costs include:			
a. The accounting policy for reporting advertising including whether such costs are expensed as incurred or the first time the advertising takes place?	_____	_____	_____
b. A description of direct-response-advertising reported as assets (if any), the related accounting policy, and the amortization method and period?	_____	_____	_____
c. The amount charged to advertising expense for each statement of income presented, with separate disclosure of amounts, if any, representing a write-down of capitalized advertising costs to net realizable value?	_____	_____	_____
d. The amount of advertising reported as assets in each balance sheet presented? [SOP 93-7, par. 49]	_____	_____	_____

B. Income Taxes

1. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?	_____	_____	_____
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the reporting entity?	_____	_____	_____
h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years? [SFAS 109, par. 45a-h (AC I27.144a-h)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to discontinued operations, extraordinary items, items charged directly to shareholders' equity, and prior period adjustments disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____
3. If the reporting entity is a public enterprise , is there a reconciliation in both percentages and dollar amounts of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
4. If the reporting entity is a nonpublic enterprise , is there disclosure of the nature of significant items required to reconcile the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
6. Is the amount of any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated (1) to reduce goodwill or other noncurrent intangible assets of an acquired entity or (2) directly to contributed capital disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
7. If the reporting entity is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:			
a. The aggregate amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented? [SFAS 109, par. 49a and b (AC I27.148a and b)]	_____	_____	_____
8. If the reporting entity is an S corporation, partnership, or proprietorship, is the reason that no income tax expense is recorded disclosed? [Generally Accepted]	_____	_____	_____
C. Discontinued Operations			
1. Are operations of any segments that have been or will be discontinued reported separately from income from continuing operations and as a component of income before extraordinary items and the cumulative effect of accounting changes (if any)? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is any gain or loss from disposal of any discontinued segments reported in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
3. Are amounts of income taxes applicable to the results of discontinued operations and the gains or losses from disposals disclosed on the face of the income statement or in the notes to the financial statements? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
4. Are revenues applicable to discontinued operations separately disclosed in the notes to the financial statements? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
5. Do notes to the financial statements for the period encompassing the measurement date disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?	_____	_____	_____
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date? [APB 30, par. 18 (AC I13.108)]	_____	_____	_____
6. If the loss on disposal cannot be estimated within reasonable limits, is that fact disclosed? [APB 30, par. 18, fn. 7 (AC I13.109)]	_____	_____	_____
7. For periods subsequent to the measurement date and including the period of disposal, do notes to the financial statements disclose the information listed in questions 5a, b, c, and d above as well as the information in 5e compared with prior estimates? [APB 30, par. 18 (AC I13.108)]	_____	_____	_____
8. If any losses on disposals of business segments that were reported in prior periods are adjusted during the current period, are the adjustments separately disclosed as to year of origin, nature, and amount and classified separately on the current period as a gain or loss on disposal of a segment? [APB 30, par. 25 (AC I13.104)]	_____	_____	_____

D. Extraordinary Items

1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
2. Is the caption <i>extraordinary items</i> used to identify separately the effects of events and transactions, other than disposals of business segments, that meet the criteria for classification as extraordinary as discussed in APB 30 (AC I17.106-.111)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are descriptive captions and amounts presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Are the nature of each extraordinary event or transaction and the principle items entering into the determination of extraordinary gains or losses described? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. Are income taxes applicable to any extraordinary items disclosed on the face of the income statement (preferable) or disclosed in the notes to the financial statements? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
6. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting the criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
7. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. A description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	_____	_____	_____
b. The income tax effect in the period of extinguishment?	_____	_____	_____
c. The per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC I17.104)]	_____	_____	_____
8. If any extraordinary items that were reported in prior periods are adjusted during the current period, are the adjustments separately disclosed as to year of origin, nature, and amount and classified separately on the current period as an extraordinary item? [SFAS 16, par. 16(c) (AC I17.119)]	_____	_____	_____

E. Earnings Per Share

Note: SFAS 128, *Earnings per Share*, which applies only to entities with publicly held common stock or potential common stock is effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. If SFAS 128 is not yet effective, refer to APB 15, *Earnings per Share*, for disclosure requirements.

1. If the reporting entity has a simple capital structure (only common stock outstanding), are basic per-share amounts for income from continuing operations and for net income presented on the face of the

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
income statement for all periods for which an income statement or summary of earnings is presented? [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]	_____	_____	_____
2. If the reporting entity has other than a simple capital structure, are basic and diluted per-share amounts for income from continuing operations and for net income presented on the face of the income statement with equal prominence for all periods for which an income statement or summary of earnings is presented? (<i>Note:</i> If diluted EPS data are reported for at least one period, they should be reported for all periods presented, even if they are the same amounts as basic EPS.) [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]	_____	_____	_____
3. If discontinued operations, extraordinary items, or the cumulative effect of accounting changes are reported in the period, are the basic and diluted per share amounts for those line items presented on the face of the income statement or in the notes? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
4. If per share amounts not required to be presented by SFAS 128 are disclosed, are they disclosed only in the notes and do the disclosures indicate whether the per share amounts are pretax or net of tax? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
5. Are the following disclosed for each period for which an income statement is presented:			
a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations?	_____	_____	_____
b. The effect that has been given to preferred dividends in arriving at income available to common shareholders' in computing basic EPS?	_____	_____	_____
c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented? [SFAS 128, par. 40 (AC E11.135)]	_____	_____	_____
6. For the latest period for which an income statement is presented, do disclosures include a description of any transaction that occurs after the end of the most recent period but before issuance of the financial statements that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period? [SFAS 128, par. 41 (AC E11.136)]	_____	_____	_____

F. Comprehensive Income

Note: SFAS 130, *Reporting Comprehensive Income*, is effective for fiscal years beginning after December 15, 1997 with earlier application permitted.

Practice Tip

Components of comprehensive income include:

- Foreign currency translation adjustments determined in accordance with SFAS 52, *Foreign Currency Translation*.
- Changes in the market value of futures contracts that qualify as hedges as described in SFAS 80, *Accounting for Futures Contracts*.
- Adjustments of minimum pension liability recognized in accordance with SFAS 87, *Employers' Accounting for Pensions*.
- Unrealized gains and losses on certain investments in debt and equity securities recognized in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Additional items may result from future accounting standards.

1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
2. Is a total amount for comprehensive income displayed in the financial statement where the components of other comprehensive income are reported? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
3. Is an amount for net income displayed and included as a component of comprehensive income? [SFAS 130, pars. 15 and 22 (AC C49.109 and .116)]	_____	_____	_____
4. Are items included in other comprehensive income classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities? [SFAS 130, par. 17 (AC C49.111)]	_____	_____	_____
5. Are reclassification adjustments made to avoid double counting in comprehensive income of items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or other periods presented on the face of the financial statement in which comprehensive income is reported or disclosed in the notes? [SFAS 130, par. 20 (AC C49.114)]	_____	_____	_____
6. Are comprehensive income and its components displayed in a financial statement that is displayed with the same prominence as the other financial statements? (<i>Note:</i> SFAS 130 encourages but does not require that the components of other comprehensive income and total comprehensive income be displayed below the total for net income in a statement that reports results of operations or in a separate statement of comprehensive income that begins with net income.) [SFAS 130, pars. 22 and 23 (AC C49.116 and .117)]	_____	_____	_____
7. Are the components of other comprehensive income displayed either net of related tax effects, or before related tax effects with one amount shown for the aggregate tax effect related to the total of other comprehensive income items? [SFAS 130, par. 24 (AC C49.118)]	_____	_____	_____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 8. Is the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments) displayed on the face of the statement in which those components are displayed or disclosed in the notes to the financial statements?
[SFAS 130, par. 25 (AC C49.119)] | _____ | _____ | _____ |
| 9. Is the total of other comprehensive income for a period transferred to a component of equity that is displayed separately from retained earnings and additional paid-in-capital in the balance sheet with a descriptive title such as <i>accumulated other comprehensive income</i> ?
[SFAS 130, par. 26 (AC C49.120)] | _____ | _____ | _____ |
| 10. Are accumulated balances for each classification within accumulated other comprehensive income disclosed on the face of the balance sheet, in the statement of changes in shareholders' equity, or in the notes?
[SFAS 130, par. 26 (AC C49.120)] | _____ | _____ | _____ |
| 11. If condensed interim financial statements are issued, is total comprehensive income reported?
[SFAS 130, par. 27 (AC C49.121)] | _____ | _____ | _____ |

Statement of Cash Flows

- | | | | |
|--|-------|-------|-------|
| 1. Does the statement of cash flows report net cash provided or used by the operating, investing, and financing activities and the effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents?
[SFAS 95, par. 26 (AC C25.124)] | _____ | _____ | _____ |
| 2. Is the accounting policy for determining which items are treated as cash equivalents disclosed?
[SFAS 95, par. 10 (AC C25.108)] | _____ | _____ | _____ |

The following table summarizes the methods used to report cash flows from operating activities in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Indirect method	589	585	586	585
Direct method	11	15	14	15
Total Companies	600	600	600	600

- | | | | |
|--|-------|-------|-------|
| 3. If the direct method of reporting net cash flow from operating activities is used, do cash flows from operating activities separately report: | | | |
| a. Cash received from customers? | _____ | _____ | _____ |
| b. Interest and dividends received? | _____ | _____ | _____ |
| c. Other operating cash receipts? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Cash paid to employees and suppliers?	_____	_____	_____
e. Interest paid?	_____	_____	_____
f. Income taxes and other payments to government?	_____	_____	_____
g. Other operating cash payments (if any)? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____

Practice Tip

SFAS 95 encourages reporting entities to use the direct method of reporting cash flows. The sample financial statements in section 6400 illustrate a statement of cash flows prepared using the direct method.

4. If the direct method is used, is a separate reconciling schedule provided to reconcile net income to net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)]	_____	_____	_____
5. If the direct method of reporting net cash flow from operating activities is not used, is the net cash flow from operating activities reported indirectly by adjusting net income to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28 (AC C25.126)]	_____	_____	_____
6. Is the reconciliation of net income to net cash flow from operating activities, including separate reporting of all major classes of reconciling items, presented? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
7. If the indirect method of reporting net cash flow from operating activities is used, are amounts of interest paid (net of amounts capitalized) and income taxes paid during the period provided in related disclosures? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
8. Are investing and financing activities that affect recognized assets or liabilities, but that do not result in cash receipts or cash payments in the period, disclosed? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
9. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from collections or sales of loans?	_____	_____	_____
b. Receipts from sales of property, plant, and equipment?	_____	_____	_____
c. Loans to others?	_____	_____	_____
d. Payments to acquire property, plant, and equipment?	_____	_____	_____
e. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account?	_____	_____	_____
f. Payments to acquire equity instruments of other enterprises, exclusive of those carried in the trading account? [SFAS 95, pars. 16 and 17 (AC C25.114 and .115)]	_____	_____	_____
10. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing debt?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Issuance of equity instruments?	_____	_____	_____
c. Payment of dividends?	_____	_____	_____
d. Repayments for amounts borrowed?	_____	_____	_____
e. Purchases of treasury stock?	_____	_____	_____
f. Other principal payments to creditors who have extended long-term debt? [SFAS 95, pars. 19 and 20 (AC C25.117 and .118); EITF 95-13]	_____	_____	_____
11. Except for certain items whose turnover is quick, amounts are large, and maturities are short, are cash receipts and cash payments from investing and financing activities shown separately on the statement of cash flows? [SFAS 95, pars. 12, 13, and 31 (AC C25.110, .111, and .129)]	_____	_____	_____

Summary of Significant Accounting Policies

Practice Tip

As you evaluate the completeness of the significant accounting policies, consider whether additions or revisions are required in response to recently issued accounting pronouncements such as:

- SFAS 123, *Accounting for Stock-Based Compensation*, (effective for fiscal years that begin after December 1995), which allows two alternative methods of accounting for stock compensation
- SFAS 128, *Earnings per Share*, which simplifies the standards for computing earnings per share
- SFAS 130, *Reporting Comprehensive Income*, which establishes standards for reporting comprehensive income and its components
- SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, which establishes standards for the way that public business enterprises report information about operating segments

Also consider whether disclosures of accounting policies covered in other sections of this checklist are included. For example:

- Inventories
- Investments accounted for by the equity method
- Property and equipment
- Business combinations
- Advertising costs
- Statement of cash flows
- Employee stock ownership plans
- Futures contracts
- Environmental remediation liabilities
- Impaired loans
- Stock compensation plans

If the accounting policy disclosures called for in sections such as these are not included in notes elsewhere in the financial statements, they should be included in the summary of accounting policies.

A. Accounting Policies

- | | | | |
|---|-------|-------|-------|
| 1. Is a description of all significant accounting policies of the reporting entity presented as either a separate summary preceding the notes to the financial statements or as the initial note?
[APB 22, par. 15 (AC A10.108)] | _____ | _____ | _____ |
|---|-------|-------|-------|

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations?
[APB 22, par. 12 (AC A10.105)] | _____ | _____ | _____ |
| 3. Do those principles and methods identified in question 2 include all instances in which there: | | | |
| a. Is a selection from existing acceptable alternatives? | _____ | _____ | _____ |
| b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry? | _____ | _____ | _____ |
| c. Are unusual or innovative applications of GAAP?
[APB 22, par. 12 (AC A10.105)] | _____ | _____ | _____ |
| 4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included?
[SOP 94-6, par. 11] | _____ | _____ | _____ |

The following table lists accounting policies that were most frequently included in the summary of accounting policies of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

DISCLOSURE OF ACCOUNTING POLICIES

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Consolidation policy	583	585	591	586
Depreciation methods	581	584	582	581
Use of estimates	577	358	—	—
Inventory pricing	555	560	556	559
Property	509	510	496	502
Cash equivalents	492	495	483	474
Earnings per share calculation	482	470	460	454
Amortization of intangibles	419	415	380	385
Interperiod tax allocation	362	384	410	431
Translation of foreign currency	351	338	320	313
Financial instruments	327	311	282	251
Employee benefits	253	219	181	178
Nature of operations	239	204	105	109
Research and development costs	181	165	153	143
Fiscal years	156	156	145	150
Environmental costs	130	122	111	87
Advertising costs	123	—	—	—
Credit risk concentrations	100	91	71	73
Capitalization of interest	86	89	79	78

B. Certain Significant Estimates

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
on the financial statements of a condition, situation, or set of circumstances that existed the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	_____	_____	_____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14]	_____	_____	_____

Other Financial Statement Disclosures

A. Business Combinations—Pooling of Interests Method

1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, are the following disclosed:
 - a. The fact that a combination accounted for by the pooling-of-interests method has occurred during the period disclosed?
[APB 16, pars. 63 and 64b (AC B50.122 and .123b)]
 - b. The name and a brief description of the enterprises combined?
[APB 16, par. 64a (AC B50.123a)]
 - c. A description and the number of shares of stock issued in the combination?
[APB 16, par. 64c (AC B50.123c)]
 - d. Details (including revenue, extraordinary items, net income, other changes in shareholders' equity, and amount of and manner of accounting for intercompany transactions) of the results of operations of the previously separate enterprises for the period before the combination is consummated that are included in the current combined net income?
[APB 16, par. 64d (AC B50.123d)]
 - e. Descriptions of the nature of adjustments of net assets of the combining enterprises to adopt the same accounting practices and the effects of the changes on net income previously reported separately and now presented in comparative financial statements?
[APB 16, par. 64e (AC B50.123e)]
 - f. Details (including at least revenue, expenses, extraordinary items, net income, and other changes in shareholders' equity for the period excluded from the reported results of operations) of increases or decreases in retained earnings from changing the fiscal year of a combining enterprise?
[APB 16, par. 64f (AC B50.123f)]
 - g. Reconciliations of amounts of revenue and earnings previously reporting by the enterprise that issued the stock to effect the com-

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
bination with the combined amounts currently presented in financial statements and summaries? (Or if a new enterprise was formed to effect the combination, the earnings of the separate enterprises that comprise combined earnings for prior periods may be disclosed.) [APB 16, par. 64g (AC B50.123g)]	_____	_____	_____
2. If a business combination that was either incomplete as of the date of the financial statements or initiated after that date is consummated before the financial statements are issued, are details (including revenue, net income, earnings per share, and the effects of anticipated changes in accounting methods as if the combination had been consummated at the date of the financial statements) of the effects of the combination disclosed? [APB 16, par. 65 (AC B50.124)]	_____	_____	_____

Practice Tip

Information relating to several relatively minor acquisitions may be combined for disclosure.

B. Business Combinations—Purchase Method

1. If a business combination occurred during the period and is to be accounted for under the purchase method, are the following disclosed:			
a. The name and a brief description of the acquired enterprise? [APB 16, par. 95a (AC B50.164a)]	_____	_____	_____
b. The method of accounting for the combination—that is, the purchase method? [APB 16, par. 95b (AC B50.164b)]	_____	_____	_____
c. The period for which results of operations of the acquired enterprise are included in the income statement of the acquiring enterprise? [APB 16, par. 95c (AC B50.164c)]	_____	_____	_____
d. The cost of the acquired enterprise and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the shares? [APB 16, par. 95d (AC B50.164d)]	_____	_____	_____
e. A description of the plan for amortization of acquired goodwill, the amortization method, and period? [APB 16, par. 95e (AC B50.164e)]	_____	_____	_____
f. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment (including consideration that is issued or issuable at the end of a contingency period or that is held in escrow)? [APB 16, pars. 78 and 95f (AC B50.136 and .164f)]	_____	_____	_____
g. For public companies only, the following as supplemental information (including at least revenue, income before extraordinary items, net income, and earnings per share) on a pro forma basis:			
(1) Results of operations for the current period as though the enterprises had combined at the beginning of the period, un-			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
less the acquisition was at or near the beginning of the period? [APB 16, par. 96a (AC B50.165a); SFAS 79, par. 6 (AC B50.165)]	_____	_____	_____
(2) Results of operations for the immediately preceding period as though the enterprises had combined at the beginning of that period if comparative statements are presented? [APB 16, par. 96b (AC B50.165b); SFAS 79, par. 6 (AC B50.165)]	_____	_____	_____
2. If the reporting entity elects not to include a preacquisition contingency (other than the effects of tax loss carryforwards) in the purchase price allocation or, for those that arise after the end of the allocation period, are not included in net income of the period in which the adjustment is determined as described in SFAS 38, is there disclosure of the amount and nature of adjustments, including the effect of the adjustments on current or expected future cash flows? [SFAS 38, par. 10 (AC B50.166)]	_____	_____	_____
3. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:			
a. Are the following disclosures made for the period in which a purchase business combination occurs:			
(1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?	_____	_____	_____
(2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntarily terminate (relocate) employees?	_____	_____	_____
(3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?	_____	_____	_____
(4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?	_____	_____	_____
b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:			
(1) A description of the type and amount of exit costs, involuntary employee termination costs, and relocation costs paid and charged against the liability?	_____	_____	_____
(2) The amount of any adjustment to the liability account and whether the corresponding entry was an adjustment of the			

costs of the acquired company or included in the determination of net income for the period?
[EITF 95-3]

<u>Yes</u>	<u>No</u>	<u>N/A</u>
_____	_____	_____

C. Changes in Accounting

1. For changes in accounting principle, does disclosure in the period of the change include:

- a. Nature of the change?

_____	_____	_____
-------	-------	-------

- b. Justification for the change including a clear explanation of why the newly adopted principle is preferable?
[APB 20, par. 17 (AC A06.113)]

_____	_____	_____
-------	-------	-------

2. For all changes in accounting principles accounted for as cumulative effect adjustments (all except those concerning a change in entity and those recognized in paragraphs 27–30 of APB 20):

- a. Are financial statements for prior periods included for comparative purposes presented as previously reported?

_____	_____	_____
-------	-------	-------

- b. Is the effect on income before extraordinary items and net income including, related per share amounts, shown?

_____	_____	_____
-------	-------	-------

- c. Is the cumulative effect of changing to the new accounting principle shown as a separate item in the income statement between the captions “extraordinary items” and “net income”?

_____	_____	_____
-------	-------	-------

- d. Is the tax effect of the cumulative change shown?

_____	_____	_____
-------	-------	-------

- e. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected?
[APB 20, pars. 19–21 (AC A06.115–.117)]

_____	_____	_____
-------	-------	-------

- f. If the pro forma amounts cannot be computed or reasonably estimated for individual prior periods, although the cumulative effect on retained earnings at the beginning of the period of change can be determined, is the reason for not showing the pro forma amounts by periods explained?
[APB 20, par. 25 (AC A06.121)]

_____	_____	_____
-------	-------	-------

- g. If computing the effect on retained earnings at the beginning of the period of change is considered impossible (for example, a change from the FIFO method of inventory pricing to the LIFO method), are disclosures limited to showing the effect of the change on results of net income of the period of change and explaining the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years?
[APB 20, par. 26 (AC A06.122)]

_____	_____	_____
-------	-------	-------

3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:

- a. Are all financial statements of prior periods presented restated?
[APB 20, par. 27 (AC A06.123)]

_____	_____	_____
-------	-------	-------

- b. Is the effect on income before extraordinary items and net income (and related per share amounts) for all prior periods presented shown?
[APB 20, par. 28 (AC A06.124)]

_____	_____	_____
-------	-------	-------

Practice Tips

Changes in accounting principle that are required to be accounted for by restating prior period financial statements include:

- Change from LIFO method of inventory pricing to another method
- Change in method of accounting for long-term, construction-type contracts
- Change to or from the full cost method of accounting in extractive industries
- Change from retirement-replacement-betterment accounting to depreciation accounting

* * * * *

If the reporting entity is first issuing its financial statements for the purpose of (a) obtaining additional equity capital from investors, (b) effecting a business combination, or (c) registering securities, and its securities are not widely held, there is a one time exemption available from the required disclosure rules that allow all prior periods to be retroactively stated.

- | | | | |
|--|----------------------------|----------------------------|----------------------------|
| <p>4. For accounting changes that are changes in estimates that affect several future periods that are not ordinary course of business accounting (e.g., uncollectible accounts), is the effect on income before extraordinary items, net income, and related per share amounts of the current period disclosed? (<i>Note:</i> Disclosure of the effect of a change in estimate that is in the ordinary course of business is recommended if the effect of such changes is material.)
[APB 20, par. 33 (AC A06.132)]</p> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| <p>5. For accounting changes that are in effect a change in entity, are the following disclosed for all periods presented:</p> <p style="margin-left: 20px;">a. The nature of the change?</p> <p style="margin-left: 20px;">b. The reason for the change?</p> <p style="margin-left: 20px;">c. The effect of the change on income before extraordinary items, net income, and related per share amounts?
[APB 20, par. 35 (AC A35.113)]</p> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| <p>6. For accounting changes that are corrections of errors in previously issued financial statements:</p> <p style="margin-left: 20px;">a. Is the nature of the error disclosed?</p> <p style="margin-left: 20px;">b. Is its effect on income before extraordinary items, net income, and related per share amounts disclosed?
[APB 20, par. 37 (AC A35.105)]</p> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| <p>7. For summaries of financial information in reports that include an accounting period in which a change in accounting principle was made, is the amount of the cumulative effect of the change that was included in net income of the period of the change shown separately along with the net income and related per share amounts of that period in the financial statements (not in a note or parenthetically)?
[APB 20, par. 39 (AC A06.134)]</p> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |

The following table lists accounting changes that were most frequently reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

ACCOUNTING CHANGES

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Impairment of long-lived assets (SFAS 121)	134	87	3	—
Environmental remediation costs	6	—	—	—
Inventories	5	3	5	9
Depreciation method	4	3	—	3
Reporting period for foreign subsidiaries	4	3	1	1
Depreciable lives	3	2	6	6
Investments (SFAS 115)	1	47	108	21
Reporting entity	1	6	1	5
Postretirement benefits (SFAS 106)	1	1	44	176
Postemployment benefits (SFAS 112)	—	18	80	87
Impairment of loans (SFAS 114)	—	6	1	—
Reinsurance contracts	—	—	2	7
Income taxes (SFAS 109)	—	—	89	233
Other	11	18	23	19

D. Commitments and Contingencies

1. Is disclosure made of the nature of estimated loss contingencies accrued when (a) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and (b) the amount of loss can be reasonably estimated?
[SFAS 5, par. 9 (AC C59.108)] _____

2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in question 1 above disclosed?
[SFAS 5, par. 9 (AC C59.108)] _____

3. For loss contingencies not accrued because one or both of the conditions described in question 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate the:
 - a. Nature of the contingency? _____
 - b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? _____
 [SFAS 5, par. 10 (AC C59.109)]

4. Are the nature and amount of guarantees disclosed (e.g., guarantees of indebtedness of others, guarantees to repurchase receivables (or, in some cases, the related property) that have been sold or otherwise assigned) even though the possibility of loss may be remote?
[SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114); EITF 85-20] _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
6. Is disclosure of the following items made:			
a. Unused letters of credit?	_____	_____	_____
b. Commitments to reduce debts, maintain working capital, or restrict dividends? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
7. For long-term unconditional purchase obligations that are not recorded in the purchaser's balance sheet, are the following disclosed:			
a. Nature and term of the obligations?	_____	_____	_____
b. Amount of the fixed and determinable portion of the obligations as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the next five years?	_____	_____	_____
c. Nature of any variable components of the obligation?	_____	_____	_____
d. Amounts of purchases under the obligations for each year for which an income statement is presented? [SFAS 47, par. 7 (AC C32.102)]	_____	_____	_____

The following table lists the types of contingencies (loss and gain) and commitments that were most commonly reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

CONTINGENCIES

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Loss Contingencies				
Litigation	431	422	407	386
Environmental	296	291	292	276
Insurance	68	64	59	46
Possible tax assessments	53	61	62	56
Government investigations	36	34	28	34
Other-described	54	69	68	65
Gain Contingencies				
Operating loss carryforward	277	282	279	268
Investment credit carryforward	32	43	43	64
Plaintiff litigation	40	47	44	43
Other-described	12	11	12	9

COMMITMENTS

Dividend restrictions	332	356	355	369
Purchase agreements	98	99	98	90
Capital expenditures	91	93	88	86
Employment contracts	31	37	37	37
Additional payments in connection with an acquisition	21	33	22	20
Licensing agreements	17	20	N/C	N/C
Sales agreements	23	13	12	11
Other-described	49	50	54	58

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
E. Current Vulnerability Due to Certain Concentrations			
1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the enterprise vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22]	_____	_____	_____
2. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside the reporting entity's home country that (a) exist at the date of the financial statements and (b) make the reporting entity vulnerable to the risk of a near-term severe impact, where it is at least reasonably possible that the events that could cause the severe impact will occur in the near term, are the following disclosed:			
a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?	_____	_____	_____
b. For operations located outside the reporting entity's home country, the carrying amounts of net assets and the geographic areas in which they are located? [SOP 94-6, par. 24]	_____	_____	_____
F. Defined Benefit Pension Plans			
1. For defined benefit pension plans sponsored by the reporting entity, are the following disclosed:			
a. A description of the plan, including:			
(1) Employee groups covered?	_____	_____	_____
(2) Type of benefit formula?	_____	_____	_____
(3) Funding policy?	_____	_____	_____
(4) Types of assets held?	_____	_____	_____
(5) Significant nonbenefit liabilities?	_____	_____	_____
(6) The nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 54a (AC P16.150a)]	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately:			
(1) The service cost component?	_____	_____	_____
(2) The interest cost component?	_____	_____	_____
(3) The actual return on assets for the period?	_____	_____	_____
(4) The net total of other components? [SFAS 87, par. 54b (AC P16.150b)]	_____	_____	_____

Practice Tip

The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 (AC P16). That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets).
- b. Amortization of the net gain or loss from earlier period.
- c. Amortization of unrecognized prior-service cost.
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16).

- c. A schedule reconciling the funded status of the plan with amounts reported in the balance sheet, showing separately:

- | | | | |
|--|-------|-------|-------|
| (1) The fair value of plan assets? | _____ | _____ | _____ |
| (2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation? | _____ | _____ | _____ |
| (3) The amount of unrecognized prior-service cost? | _____ | _____ | _____ |
| (4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)? | _____ | _____ | _____ |
| (5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)? | _____ | _____ | _____ |
| (6) The amount of any additional liability if the accumulated benefit obligation exceeds the fair value of plan assets, recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)? | _____ | _____ | _____ |
| (7) The amount of net pension asset or liability recognized in the balance sheet pursuant to SFAS 87, paragraphs 35 and 36 (AC P16.129 and .130), which is the net result of combining the preceding six items?
[SFAS 87, par. 54c (AC P16.150c)] | _____ | _____ | _____ |
| d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation?
[SFAS 87, par. 54d (AC P16.150d)] | _____ | _____ | _____ |
| e. The weighted-average expected long-term rate of return on plan assets?
[SFAS 87, par. 54d (AC P16.150d)] | _____ | _____ | _____ |
| f. The amounts and types of securities of the employer and related parties included in plan assets?
[SFAS 87, par. 54e (AC P16.150e)] | _____ | _____ | _____ |
| g. The approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?
[SFAS 87, par. 54e (AC P16.150e)] | _____ | _____ | _____ |
| h. If applicable, the alternative amortization methods used to reduce the unrecognized cost of retroactive plan amendments and unrecognized gain or loss pursuant to SFAS 87, paragraphs 26 and 33?
[SFAS 87, par. 54e (AC P16.150e)] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
i. The existence and nature of a commitment to make future amendments based upon a history of regular increases in non-pay-related benefits or benefits under a career-average-pay plan? [SFAS 87, par. 54e (AC P16.150e)]	_____	_____	_____

Practice Tip

Employers that sponsor two or more defined benefit pension plans may present the information required to be disclosed by paragraph 54 of SFAS 87 (AC P16.150) either aggregated for all of the employer's single employer defined benefit plans or disaggregated in groups. However, disclosures for plans with assets in excess of accumulated benefit obligations should not be aggregated with plans that have accumulated benefit obligations that exceed plan assets. Similarly, disclosures for plans outside the U.S. should not be combined with those for U.S. plans unless those plans use similar economic assumptions.

2. If the reporting entity recognizes a gain or loss as a result of a settlement or curtailment of a defined benefit pension plan or termination of benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____

G. Defined Benefit Postretirement Benefit Plans

1. For defined benefit postretirement benefit plans sponsored by the reporting entity, are the following disclosed:			
a. A description of the substantive plan(s) that is the basis for the accounting, including the following:			
(1) The nature of the plan?	_____	_____	_____
(2) Any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s)?	_____	_____	_____
(3) The existence and nature of any commitment to increase monetary benefits provided by the plan?	_____	_____	_____
(4) Employee groups covered?	_____	_____	_____
(5) Types of benefits provided?	_____	_____	_____
(6) Funding policy?	_____	_____	_____
(7) Types of assets held?	_____	_____	_____
(8) Significant nonbenefit liabilities?	_____	_____	_____
(9) The nature and effect of significant matters affecting the comparability of information for all periods presented (such as the effect of a business combination or divestiture)? [SFAS 106, par. 74a (AC P40.169a)]	_____	_____	_____
b. The amount of net periodic postretirement benefit cost for the period showing separately:			
(1) The service cost component?	_____	_____	_____
(2) The interest cost component?	_____	_____	_____
(3) The actual return on plan assets for the period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) Amortization of the unrecognized transition obligation or transition asset?	_____	_____	_____
(5) The net total of other components? [SFAS 106, par. 74b (AC P40.169b)]	_____	_____	_____

Practice Tip

The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement of the actual return on plan assets).
 - b. Amortization of unrecognized prior-service cost.
 - c. Amortization of the net gain or loss from earlier period.
 - d. Any gain or loss recognized due to a temporary deviation from the substantive plan.
-

c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's balance sheet, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?	_____	_____	_____
(3) The amount of unrecognized prior-service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized transition obligation or transition asset?	_____	_____	_____
(6) The amount of net postretirement benefit asset or liability recognized in the balance sheet, which is the net result of combining the preceding five items? [SFAS 106, par. 74c (AC P40.169c)]	_____	_____	_____
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible changes) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved? [SFAS 106, par. 74d (AC P40.169d)]	_____	_____	_____
e. The weighted average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return? [SFAS 106, par. 74e (AC P40.169e)]	_____	_____	_____
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:			
(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) The accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based on the substantive plan that is the basis for the accounting)? [SFAS 106, par. 74f (AC P40.169f)]	_____	_____	_____
g. The amounts and types of securities of the employer and related parties included in plan assets? [SFAS 106, par. 74g (AC P40.169g)]	_____	_____	_____
h. The approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties? [SFAS 106, par. 74g (AC P40.169g)]	_____	_____	_____
i. Any alternative amortization method used to reduce the unrecognized prior service cost and unrecognized gain or loss pursuant to paragraph 53 or 60 of SFAS 106 (AC P40.148 or .155)? [SFAS 106, par. 74h (AC P40.169h)]	_____	_____	_____
j. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)? [SFAS 106, par. 74i (AC P40.169i)]	_____	_____	_____
k. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74j (AC P40.169j)]	_____	_____	_____

Practice Tip

These disclosures may be combined for all of a reporting entity's defined benefit postretirement benefit plans. However, disclosures for plans that provide health care benefits should not be combined with those that provide other postretirement benefits and disclosures. United States plans should not be combined with those outside of the United States.

H. Defined Contribution Pension Plans

1. For defined contribution pension plans sponsored by the reporting entity, are the following disclosed separately from disclosures for defined benefit plans:
 - a. A description of the plan, including:
 - (1) Employee groups covered? _____
 - (2) The basis for determining contributions? _____
 - (3) The nature and effect of significant matters affecting comparability of information for all periods presented? _____
 - b. The amount of cost recognized during the period?
[SFAS 87, par. 65 (AC P16.162)] _____

I. Defined Contribution Postretirement Benefit Plans

1. For defined contribution postretirement benefit plans sponsored by the reporting entity, are the following items disclosed separately from defined benefit plan disclosures:
 - a. A description of the plan(s), including:
 - (1) Employee groups covered? _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) The basis for determining contributions?	_____	_____	_____
(3) The nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 106, par. 106a (AC P40.198a)]	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 106, par. 106b (AC P40.198b)]	_____	_____	_____

J. Employee Stock Ownership Plans

1. For any employee stock ownership plans (ESOPs) sponsored by the reporting entity, do the financial statements include disclosure of:			
a. A description of the plan?	_____	_____	_____
b. The basis for determining contributions?	_____	_____	_____
c. The employee groups covered?	_____	_____	_____
d. The nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
e. For leveraged ESOPs and pension reversion ESOPs, the basis for releasing shares and how dividends on allocated and unallocated shares are used? [SOP 93-6, par. 53a]	_____	_____	_____
2. A description of the accounting policies followed for ESOP transactions, including:			
a. The method of measuring compensation?	_____	_____	_____
b. The classification of dividends on ESOP shares?	_____	_____	_____
c. The treatment of ESOP shares for earnings per share (EPS) computation? [SOP 93-6, par. 53b]	_____	_____	_____
3. If the reporting entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies set forth in question 2 above disclosed for both blocks of shares? [SOP 93-6, par. 53b]	_____	_____	_____
4. Is the amount of compensation cost recognized during the period disclosed? [SOP 93-6, par. 53c]	_____	_____	_____
5. Is the number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date disclosed? (<i>Note:</i> If the reporting entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, these disclosures should be made separately for both blocks of shares.) [SOP 93-6, par. 53d]	_____	_____	_____
6. Is the fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6? [SOP 93-6, par. 53e]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Is disclosure made of the existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation? [SOP 93-6, par. 53f]	_____	_____	_____

Practice Tip

SOP 93-6 encourages, but does not require the application of its guidance to shares acquired by ESOPs on or before December 31, 1992. However, reporting entities with ESOPs that do not adopt SOP 93-6 are required to make all of the applicable disclosures listed above.

8. If the reporting entity issues shares or sells treasury shares to an ESOP or if a leveraged ESOP buys outstanding shares on the market rather than from the employer, has a corresponding charge to unearned ESOP shares, a contra-equity account presented as a separate item in the balance sheet, been reported? [SOP 93-6, par. 13]	_____	_____	_____
9. If the ESOP used assets from a terminated defined benefit pension plan to purchase employer shares, has a corresponding charge to unearned ESOP shares, a contra-equity account presented as a separate item in the balance sheet, been reported? [SOP 93-6, par. 46]	_____	_____	_____
10. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported on the employer's balance sheet? [SOP 93-6, par. 26]	_____	_____	_____
11. If the employer sponsors an ESOP with an employer loan, is the employer's note receivable from the ESOP not reported in the employer's balance sheet? [SOP 93-6, par. 27]	_____	_____	_____
12. If the reporting entity has guaranteed the debt of an ESOP or made a commitment to make future contributions to the ESOP sufficient to meet debt service requirements, are the compensation element and the interest element of annual contributions reported separately and are the interest rate and debt terms disclosed in the notes to the financial statements? [SOP 76-3, par. 10]	_____	_____	_____

K. Environmental Remediation Liabilities

1. Is there disclosure of the following accounting policies:			
a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?	_____	_____	_____
b. The policy concerning the timing of recognition of recoveries? <i>(Encouraged, but not required.)</i> [SOP 96-1 (Ch. 7, pars. 11 and 12)]	_____	_____	_____
2. Do the financial statements disclose the event, situation, or set of circumstances that triggered recognition of loss contingencies that arose out of the reporting entity's environmental remediation-related obligations? <i>(Encouraged, but not required.)</i> [SOP 96-1 (Ch. 7, par. 12)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<i>Recognized Losses and Recoveries of Losses, and Reasonably Possible Loss Exposures</i>			
3. With respect to recorded accruals for environmental remediation loss contingencies and assets for third-party recoveries related to environmental remediation obligations, are the following disclosed?	_____	_____	_____
a. The nature of the accruals, if such disclosure is necessary for the financial statements not to be misleading, and, in situations where disclosure of the nature of the accruals is necessary, the total amount accrued for the remediation obligation, if such disclosure is also necessary for the financial statements not to be misleading?	_____	_____	_____
b. If any portion of the accrued obligation is discounted, the undiscounted amount of the obligation and the discount rate used in the present-value determinations?	_____	_____	_____
c. If the criteria of SOP 94-6 (it is at least reasonably possible that an estimate of the effect on the financial statements of a matter that existed at the balance-sheet date will change in the near term and the effect of the change would be material to financial statements) are met with respect to the accrued obligation or to any recognized asset for third-party recoveries, an indication that it is at least reasonably possible that a change in the estimate of the obligation or of the asset will occur in the near term? [SOP 96-1 (Ch. 7, par. 20)]	_____	_____	_____
4. With respect to reasonably possible loss contingencies, including reasonably possible loss exposures in excess of the amount accrued, are the following disclosed:			
a. The nature of the reasonably possible loss contingency, that is, a description of the reasonably possible remediation obligation, and an estimate of the possible loss exposure or the fact that such an estimate cannot be made?	_____	_____	_____
b. If the criteria of SOP 94-6 are met with respect to estimated loss (or gain) contingencies, an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
c. The estimated time frame of disbursements for recorded amounts if expenditures are expected to continue over the long term? <i>(Encouraged, but not required.)</i>	_____	_____	_____
d. The estimated time frame for realization of recognized probable recoveries, if realization is not expected in the near term? <i>(Encouraged, but not required.)</i>	_____	_____	_____
e. If the criteria of SOP 94-6 are met with respect to the accrued obligation, to any recognized asset for third-party recoveries, or to reasonably possible loss exposures or disclosed gain contingencies, the factors that cause the estimate to be sensitive to change? <i>(Encouraged, but not required.)</i>	_____	_____	_____
f. If an estimate of the probable or reasonably possible loss or range of loss cannot be made, the reasons why it cannot be made? <i>(Encouraged, but not required.)</i>	_____	_____	_____
g. If information about the reasonably possible loss or the recognized and additional reasonably possible loss for an environmental remediation obligation related to an individual site is relevant to an understanding of the financial position, cash flows, or results of operations of the entity, the following with respect to the site: <i>(Encouraged, but not required.)</i>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) The total amount accrued for the site?	_____	_____	_____
(2) The nature of any reasonably possible loss contingency or additional loss, and an estimate of the possible loss or the fact that an estimate cannot be made and the reasons why it cannot be made?	_____	_____	_____
(3) Whether other potentially responsible parties are involved and the entity's estimated share of the obligation?	_____	_____	_____
(4) The status of regulatory proceedings?	_____	_____	_____
(5) The estimated time frame for resolution of the contingency? [SOP 96-1 (Ch. 7, pars. 21 and 22)]	_____	_____	_____

Probable But Not Reasonably Estimable Losses

5. If the reporting entity's probable but not reasonably estimable environmental remediation obligations may be material, are the nature of the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed? [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____
6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? (<i>Encouraged, but not required</i>) [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____

Environmental Remediation Costs Recognized Currently

7. Is the amount of environmental remediation costs recognized in the income statement disclosed in the following detail: (<i>Encouraged, but not required.</i>)			
a. The amount recognized for environmental remediation loss contingencies in each period?	_____	_____	_____
b. The amount of any recovery from third parties that is credited to environmental remediation costs in each period?	_____	_____	_____
c. The income statement caption in which environmental remediation costs and credits are included? [SOP 96-1 (Ch. 7, par. 29)]	_____	_____	_____

Other Matters

8. Do the financial statements include a <i>contingency conclusion</i> that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? (<i>Optional.</i>) [SOP 96-1 (Ch. 7, par. 30)]	_____	_____	_____
9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? (<i>Optional.</i>) [SOP 96-1 (Ch. 7, par. 31)]	_____	_____	_____

L. Extinguishments of Debt

1. Are the gains and losses from extinguishment(s) of debt aggregated and, if material, shown as an extraordinary item, net of related income

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
tax effect? (<i>Note:</i> Does not apply to gains and losses from extinguishments of debt made to satisfy sinking fund requirements that the reporting entity must meet within one year of the date of the extinguishment.) [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC L35.107)]	_____	_____	_____
2. Are gains or losses from extinguishment(s) made to satisfy sinking fund requirements that the reporting entity must meet within one year of the date of the extinguishment aggregated and identified as a separate item? [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC L35.107)]	_____	_____	_____
3. For gains and losses from extinguishment(s) of debt that are classified as an extraordinary item, are the following disclosed in a single note to the financial statements or adequately cross-referenced if in more than one note, to the extent not shown separately on the face of the income statement:			
a. A description of the extinguishment transactions, including sources of any funds used to extinguish debt if it is practicable to identify the sources?	_____	_____	_____
b. The income tax effect in the period of extinguishment?	_____	_____	_____
c. The per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC L35.109c)]	_____	_____	_____
4. If debt was considered to be extinguished under the provisions of SFAS 76 prior to the effective date of SFAS 125, do disclosures include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished at the end of the period as long as the debt remains outstanding? [SFAS 125, par. 17b (AC L35.109a)]	_____	_____	_____
5. If assets were set aside after the effective date of SFAS 125 (December 31, 1996) solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on assets? [SFAS 125, par. 17c (AC L35.109b)]	_____	_____	_____

M. Financial Instruments

1. If the reporting entity holds or is party to financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed by category of financial instrument:

Note: "Category of financial instrument" refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the reporting entity also should describe for each category the classes of financial instruments included in that category.

- | | | | |
|---|-------|-------|-------|
| a. The face or contract amount (or notional principal amount if there is no face or contract amount)? | _____ | _____ | _____ |
| b. The nature and terms, including, at a minimum, a discussion of: | | | |
| (1) The credit and market risk of those instruments? | _____ | _____ | _____ |
| (2) The cash requirements of those instruments? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? [SFAS 105, par. 17 (AC F25.112)]	_____	_____	_____
2. Do the disclosures in questions 1a and b distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading? [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112A)]	_____	_____	_____
3. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed by category of financial instrument:			
a. The amount of accounting loss the reporting entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the reporting entity?	_____	_____	_____
b. The reporting entity's policy of requiring collateral or other security to support financial instruments subject to credit risk?	_____	_____	_____
c. Information about the reporting entity's access to that collateral or other security?	_____	_____	_____
d. The nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]	_____	_____	_____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for those excluded in SFAS 105), include:			
a. Information about the (shared) activity, region, or economic characteristic that identified the concentration?	_____	_____	_____
b. The amount of accounting loss due to credit risk the reporting entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the reporting entity?	_____	_____	_____
c. The reporting entity's policy of requiring collateral or other security to support financial instruments subject to credit risk?	_____	_____	_____
d. The information about the reporting entity's access to that collateral or other security?	_____	_____	_____
e. The nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____

Practice Tip

SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, makes the disclosures about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

- Are nonpublic entities,
- Have total assets of less than \$100 million on the date of the financial statements, and
- Did not hold or issue any derivative financial instruments (as defined in SFAS 119) during the reporting period.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. For financial instruments for which it is practicable to estimate fair value (except for those excluded in paragraphs 8 and 13 of SFAS 107) are the following disclosed:			
a. The fair value of the financial instruments?	_____	_____	_____
b. The methods and significant assumptions used to estimate the fair values of the instruments? (<i>Note:</i> This disclosure is not required for trade receivables and payables when their carrying amounts approximate fair value.) [SFAS 107, par. 10 (ACF25.115C)]	_____	_____	_____
6. Are the fair values disclosed in the notes presented together with the related carrying amounts in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the balance sheet? [SFAS 119, par. 15b (AC F25.115C)]	_____	_____	_____
7. Do the disclosures distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 119, par. 15c (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:			
a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (ACF25.115)]	_____	_____	_____
9. In disclosing the fair value of derivative financial instruments, does the reporting entity <i>not</i> :			
a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 119, par. 15d (AC F25.115I)]	_____	_____	_____

Practice Tip

In certain situations, offsetting may be permitted under FASBI 39, *Offsetting of Amounts Related to Certain Contracts*, as modified by FASBI 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*.

10. For options held and other derivative financial instruments not within the scope of SFAS 105 (because they do not have off-balance-sheet risk of accounting loss), are the following disclosures made by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including at a minimum a discussion of:			
(1) Credit and market risk of the instruments?	_____	_____	_____
(2) Cash requirements of the instruments?	_____	_____	_____
(3) Related accounting policy as required by APB 22? [SFAS 119, par. 8 (AC F25.115L)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. Do disclosures in questions 10a and b above distinguish between financial instruments held or issued for:			
a. Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
b. Purposes other than trading? [SFAS 119, par. 9 (AC F25.115M)]	_____	_____	_____
12. If the reporting entity holds or issues derivative financial instruments for trading purposes, are the following disclosed:			
a. The average fair value of those derivative financial instruments during the reporting period presented together with the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk, or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?	_____	_____	_____
(1) If the disaggregation is other than by class, are the classes of derivative financial instruments, other financial instruments and nonfinancial assets and liabilities from which the net trading gains and losses arose disclosed for each category?	_____	_____	_____
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? (<i>Encouraged, but not required.</i>) [SFAS 119, par. 10 (AC F25.115N)]	_____	_____	_____
13. If the reporting entity holds or issues derivative financial instruments for purposes other than trading, are the following disclosed:			
a. A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transactions or events that result in the recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11 (AC F25.115O)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
14. Is quantitative information about the following considered for disclosure (<i>Encouraged, but not required</i>):			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information about the risks of other financial instruments or non-financial assets and liabilities to which the derivative financial instruments are related?	_____	_____	_____
[SFAS 119, pars. 12 and 13 (AC F25.115P and .115Q)]			

Practice Tip

Methods of disclosure of this quantitative information about risks of derivative financial instruments include:

- Additional details about current positions and activity.
- Hypothetical effects on equity or annual income of several possible changes in market prices.
- Gap analysis of interest rate repricing or maturity dates.
- Duration of the financial instruments.
- The reporting entity's value at risk from derivative financial instruments and other positions at year-end and the average value at risk during the year.

- For a written put option involving a reporting entity's own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework?
[EITF 96-13]
- Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity's own stock that give the reporting entity a choice of settlement methods?
[EITF 96-13]

The following table lists the types of financial instruments that were most commonly reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

FINANCIAL INSTRUMENTS

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Foreign currency contracts	285	294	294	254
Interest rate contracts	225	231	235	230
Commodity contracts	81	74	79	56
Guarantees:				
Debt	104	112	108	103
Lease payments	27	36	37	39
Contract performance	21	18	24	30
Support agreements	13	13	11	18
Other	34	23	21	19
Letters of credit	183	170	149	167
Sale of receivables with recourse	61	78	75	56

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
N. Foreclosed Assets			
1. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means? [SOP 92-3, par. 15]	_____	_____	_____
2. If foreclosed assets originally classified as held-for-sale are to be held for production of income, is the net effect reported in income from continuing operations in the period in which the decision to retain the asset was made? [SOP 92-3, par. 16]	_____	_____	_____
O. Foreign Currency Translation			
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____
2. Is an analysis of changes during the period in the separate component of equity for cumulative translation adjustments included, and does it disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and inter-company balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. If significant rate changes have occurred after the date of the financial statements, are the effects on unsettled balances related to foreign currency translations disclosed? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. If the reporting entity entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (because they are two separate legal transactions and do not have the legal right of set off)? [EITF 86-25; FASBI 39]	_____	_____	_____
6. Is the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities reported in shareholders' equity? [EITF 96-15]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Are foreign currency transaction gains and losses on a forward exchange contract or a foreign-currency-denominated liability that is designated as, and is effective as, a hedge of the foreign-currency-denominated available-for-sale debt security also reported in the SFAS 115 component of shareholders' equity (to offset the portion of the market value change of a foreign-currency-denominated available-for-sale debt security attributable to foreign exchange rates)? [EITF 96-15]	_____	_____	_____
P. Futures Contracts			
1. If futures contracts are accounted for as hedges, do disclosures include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contract? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____
Q. Impaired Loans			
1. Is the following information about loans that meet the definition of impaired loans in SFAS 114 disclosed as of the date of each balance sheet presented:			
a. The total recorded investment in the impaired loans?	_____	_____	_____
b. The amount of that recorded investment for which there is a related allowance for credit losses determined in accordance with SFAS 114 and the amount of that allowance?	_____	_____	_____
c. The amount of that recorded investment for which there is no related allowance for credit losses determined in accordance with SFAS 114? [SFAS 118, par. 6i (AC I08.118a)]	_____	_____	_____
2. Is the policy for recognizing interest income on impaired loans, including how cash receipts are handled, disclosed? [SFAS 114, par. 6i (AC I08.118b)]	_____	_____	_____
3. Are the following disclosures made for each period for which an income statement is presented:			
a. The average recorded investment in the impaired loans during the period?	_____	_____	_____
b. The related amount of interest income recognized during the time within the period that the loans were considered impaired?	_____	_____	_____
c. Unless not practicable, the amount of interest income recognized using a cash-basis method of accounting during the time within the period that the loans were impaired?	_____	_____	_____
d. Activity in the total allowance for credit losses related to loans, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off? (<i>Note:</i> The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with SFAS 5 and SFAS 114.) [SFAS 118, par. 6i (AC I08.118c)]	_____	_____	_____

Practice Tip

Information about impaired loans that have been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by questions 1 and 3a–c above in years after the restructuring if (a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the time of the restructuring for a new loan with comparable risk and (b) the loan is not impaired based on the terms specified in the restructuring agreement. That exception must be applied consistently for questions 1 and 3a–c above to all loans restructured in a troubled debt restructuring that meet the specified criteria.

- | | | | |
|---|--------------|--------------|--------------|
| <p>4. In years after a restructuring, are loans that are restructured in a troubled debt restructuring into two (or more) loan agreements considered separately when assessing the applicability of the disclosures in paragraphs 20(a) and 20(c) of SFAS 114 as amended by SFAS 118 (questions 1 and 3a–c above)?
[EITF 96-22]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>5. If the reporting entity is an SEC registrant, is adequate disclosure made of the impact of the multiple loan structures on impaired loan disclosures for loans restructured in troubled debt restructurings?
[EITF 96-22]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |

R. Impairment of Long-Lived Assets

- | | |
|---|--------------|
| <p>1. If an impairment loss is recognized for assets to be held and used, do disclosures include:</p> | |
| <p style="padding-left: 20px;">a. A description of the impaired assets and the facts and circumstances leading to the impairment?</p> | <p>_____</p> |
| <p style="padding-left: 20px;">b. The amount of the impairment loss and how fair value was determined?</p> | <p>_____</p> |
| <p style="padding-left: 20px;">c. The caption in the income statement in which the impairment loss is aggregated if that loss is not presented as a separate caption or reported parenthetically on the face of the statement?</p> | <p>_____</p> |
| <p style="padding-left: 20px;">d. The business segment(s) affected, if applicable?
[SFAS 121, par. 14 (AC I08.133)]</p> | <p>_____</p> |
| <p>2. For assets to be disposed of, do disclosures include:</p> | |
| <p style="padding-left: 20px;">a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?</p> | <p>_____</p> |
| <p style="padding-left: 20px;">b. The business segment(s) in which assets to be disposed of are held, if applicable?</p> | <p>_____</p> |
| <p style="padding-left: 20px;">c. The loss, if any, resulting from applying paragraph 15 of SFAS 121?</p> | <p>_____</p> |
| <p style="padding-left: 20px;">d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from applying paragraph 17 of SFAS 121?</p> | <p>_____</p> |
| <p style="padding-left: 20px;">e. The caption in the income statement in which the gains or losses in c and d are aggregated if those gains or losses are not presented as a separate caption or reported parenthetically on the face of the statement?</p> | <p>_____</p> |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. The results of operations for assets to be disposed of to the extent that those results are included in the reporting entity's results of operations for the period and can be identified? [SFAS 121, par. 19]	_____	_____	_____
3. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes? [SFAS 121, pars. 13 and 18]	_____	_____	_____
S. Leases—Lessors			
1. For sales-type and direct financing leases, do disclosures include:			
a. The components of the net investment in sales-type and direct financing leases as of each balance-sheet date:			
(1) Future minimum lease payments to be received, with separate deductions for (a) amounts representing executory costs, including any profit thereon, included in minimum lease payments and (b) the accumulated allowances for uncollectible minimum lease payments receivable?	_____	_____	_____
(2) The unguaranteed residual values accruing to the benefit of the lessor?	_____	_____	_____
(3) For direct financing leases only, initial direct costs?	_____	_____	_____
(4) Unearned income?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a, as amended by SFAS 91, par. 25 (AC L10.119a)]	_____	_____	_____
2. For operating leases, do disclosures include:			
a. The cost and carrying amount (if different) of property on lease or held for leasing by major classes of property according to nature and function, and the amount of accumulated depreciation in total as of the latest balance-sheet date?	_____	_____	_____
b. Minimum future rentals on noncancelable leases as of the latest balance-sheet date presented, in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
3. For investments in leveraged leases, do disclosures include:			
a. In the balance sheet, the amount of deferred taxes presented separately from the remainder of the net investment?	_____	_____	_____
b. In the income statement or the notes thereto, separate presentation (from each other) of pretax income from the leveraged lease, the tax effect of pretax income, and the amount of investment tax credit recognized as income during the period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. When leveraged leasing is a significant part of the lessor's business activities in terms of revenue, net income, or assets, the components of the net investment balance in leveraged leases in the notes to the financial statements? [SFAS 13, par. 47 (AC L10.149)]	_____	_____	_____
4. Do disclosures include a general description of the lessor's leasing arrangements? [SFAS 13, par. 23 (AC L10.119c)]	_____	_____	_____
5. For leasing transactions with related parties, are the nature and extent of the transaction disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
T. Leases—Lessees			
1. For capital leases, do disclosures include:			
a. The gross amounts of assets recorded as of each balance-sheet date presented by major classes according to nature or function? (<i>Note:</i> This information may be combined with comparable information for owned assets.) [SFAS 13, par. 16 (AC L10.112a(1))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments and for the amount of imputed interest necessary to reduce net minimum lease payments to present value? [SFAS 13, par. 16a (AC L10.112a(2))]	_____	_____	_____
c. Total of future minimum sublease rentals to be received in the future under noncancelable subleases as of the latest balance-sheet date? [SFAS 13, par. 16a (AC L10.112a(3))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(4))]	_____	_____	_____
e. Are the following separately identified in the balance sheet or in the notes to the financial statements:			
(1) Assets recorded under capital leases and the accumulated amortization thereon related obligations under the lease?	_____	_____	_____
(2) The related obligations under the lease? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
f. Amortization expense, unless it is included in depreciation expense and that fact is disclosed? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases:			
a. Do disclosures include rental expense for each period for which an income statement is presented?	_____	_____	_____
b. Are separate amounts presented for:			
(1) Minimum rentals?	_____	_____	_____
(2) Contingent rentals?	_____	_____	_____
(3) Sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. The basis on which contingent rental payments are determined?	_____	_____	_____
b. The existence and terms of renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictions imposed by lease agreements, such as those concerning dividends, additional debt or further leasing? [SFAS 13, par. 16d (AC L10.112d)]	_____	_____	_____
5. If there is a modification of lease terms and the increase in lease payments is a termination penalty, is the accounting policy disclosed in accordance with APB 22? [EITF 95-17; APB 22, pars. 12-14 (AC L10.108 and 109)]	_____	_____	_____

U. Multiemployer Pension Plans

1. For multiemployer pension plans in which the reporting entity participates, are the following disclosed (separately from disclosures for single-employer plans that it sponsors):			
a. A description of the multiemployer plan(s), including:			
(1) Employee groups covered?	_____	_____	_____
(2) The type of benefits provided (defined benefit or defined contribution)?	_____	_____	_____
(3) The nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
2. If it is either probable or reasonably possible that the employer's withdrawal from a multiemployer plan will result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations, are the disclosures required by SFAS 5 (AC C59) made? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____

V. Multiemployer Postretirement Benefit Plans

1. For multiemployer postretirement benefit plans in which the reporting entity participates, are the following disclosed (separately from disclosures for single-employer plans that it sponsors):

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A description of the multiemployer plan(s), including:			
(1) Employee groups covered?	_____	_____	_____
(2) Type of benefits provided (defined benefit or defined contribution)?	_____	_____	_____
(3) The nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 106, par. 82a (AC P40.178a)]	_____	_____	_____
b. The amount of postretirement benefit cost recognized during the period, if available; or otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees? [SFAS 106, par. 82b (AC P40.178b)]	_____	_____	_____
2. If it is either probable or reasonably possible that (a) the employer would withdraw from a multiemployer plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would increase during the remainder of the contract period to make up for a shortfall in the funds necessary to maintain the negotiated level of benefit coverage, are the disclosures required by SFAS 5 (AC C59) made? [SFAS 106, par. 83 (AC P40.179)]	_____	_____	_____
W. Nonmonetary Transactions			
1. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	_____	_____	_____
b. Basis of accounting for the assets transferred?	_____	_____	_____
c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC N35.120)]	_____	_____	_____
X. Postemployment Benefits			
1. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability related benefits, job training and counseling, and continuation of health and insurance coverage) has not been accrued because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____
Y. Related-Party Transactions and Economic Dependency			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved?	_____	_____	_____
b. For each period for which an income statement is presented:			
(1) A description of the transaction, including transactions to which no amounts or nominal amounts were ascribed?	_____	_____	_____
(2) Other information deemed necessary to an understanding of the effects of the transaction on the financial statements?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) The dollar amount of transactions?	_____	_____	_____
(4) The effect of any changes in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
c. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–.104)]	_____	_____	_____
2. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm’s length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]	_____	_____	_____
3. If (a) the reporting entity and one or more other enterprises are under common ownership or management control and (b) the existence of the control could result in operating results or financial position of the reporting entity being significantly different from that if the enterprise were autonomous, is the nature of the controlled relationships disclosed (even if there are no transactions between the enterprises)? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
5. Are combined financial statements considered for entities under common control? [ARB 51, pars. 22 and 23 (AC C51.121 and .122)]	_____	_____	_____

Z. Research and Development Arrangements

1. If the reporting entity accounts for its obligations under research and development arrangements as contracts to perform research and development for others in accordance with SFAS 68, are the following disclosed:			
a. The terms of significant agreements under the research and development arrangements (including royalty arrangements, purchase provisions, license agreements, and commitments to provide additional funding) as of the date of each balance sheet presented?	_____	_____	_____
b. The amount of compensation earned and costs incurred under such contracts for each period for which an income statement is presented? [SFAS 68, par. 14 (AC R55.112)]	_____	_____	_____

AA. Restructuring Charges

1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, <i>Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)</i> , are the following disclosures made in all periods until the plan of termination is completed:			
a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The number of employees to be terminated?	_____	_____	_____
c. A description of the employee group(s) to be terminated?	_____	_____	_____
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?	_____	_____	_____
e. The amount of any adjustment(s) to the liability? [EITF 94-3, Section A]	_____	_____	_____
2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:			
a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?	_____	_____	_____
b. No disclosure made on the face of the income statement for earnings per share effect?	_____	_____	_____
c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income? [EITF 94-3, Section B]	_____	_____	_____
3. If the activities that will not be continued are significant to the reporting entity's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:			
a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?	_____	_____	_____
b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?	_____	_____	_____
c. A description of the type and amount of exit costs paid and charged against the liability?	_____	_____	_____
d. The amount of any adjustment(s) to the liability?	_____	_____	_____
e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]	_____	_____	_____

BB. Segment Information

Note: SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, is effective for fiscal years beginning after December 15, 1997, with earlier application encouraged. Public business enterprises are required to provide the disclosures described in SFAS 131 and nonpublic business enterprises are encouraged to do so.

1. Are the factors used to identify the reporting entity's reportable segments, including the basis of organization (for example, whether

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
management has chosen to organize the reporting entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated) disclosed? [SFAS 131, par. 26 (AC F30.125)]	_____	_____	_____
2. Are the types of products and services from which each reportable segment derives its revenues disclosed? [SFAS 131, par. 26 (AC F30.125)]	_____	_____	_____
3. Is a measure of profit or loss reported for each reportable segment? [SFAS 131, par. 27 (AC F30.126)]	_____	_____	_____
4. If the following amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, are they disclosed for each reportable segment:			
a. Revenues from external customers?	_____	_____	_____
b. Revenues from transactions with other operating segments of the reporting entity?	_____	_____	_____
c. Interest revenue?	_____	_____	_____
d. Interest expense?	_____	_____	_____
e. Depreciation, depletion, and amortization expense?	_____	_____	_____
f. Unusual items as described in paragraph 26 of APB 30?	_____	_____	_____
g. Equity in the net income of investees accounted for by the equity method?	_____	_____	_____
h. Income tax expense or benefit?	_____	_____	_____
i. Extraordinary items?	_____	_____	_____
j. Significant noncash items other than depreciation, depletion, and amortization expense? [SFAS 131, par. 27 (AC F30.126)]	_____	_____	_____
5. If the following amounts are included in the determination of segment assets reviewed by the chief operating decision maker, are they disclosed for each reportable segment:			
a. The amount of investment in equity method investees?	_____	_____	_____
b. Total expenditures for additions to long-lived assets other than financial instruments and deferred tax assets? [SFAS 131, par. 28 (AC F30.127)]	_____	_____	_____
6. Is an explanation of the measurements of segment profit or loss and segment assets that discloses the following for each reportable segment provided:			
a. The basis of accounting for any transactions between reportable segments?	_____	_____	_____
b. The nature of any differences between the reporting entity's consolidated income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principle?	_____	_____	_____
c. The nature of any differences between the measurements of the reportable segments' assets and the reporting entity's consolidated assets?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss?	_____	_____	_____
e. The nature and effect of any asymmetrical allocations to segments? [SFAS 131, par. 31 (AC F30.130)]	_____	_____	_____
7. Are reconciliations of the totals of the reportable segments' revenues, measures of profit or loss, assets, and every other significant item of information disclosed to corresponding consolidated amounts presented with all significant reconciling items separately identified and described? [SFAS 131, par. 32 (AC F30.131)]	_____	_____	_____
8. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments, is the corresponding information for prior periods restated and is the fact that the corresponding items of segment information for earlier periods have been restated disclosed? [SFAS 131, par. 34 (AC F30.133)]	_____	_____	_____
9. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments and the corresponding information for prior periods is not restated, does disclosure in the year in which the change occurs include segment information for the current period under both the old basis and the new basis? [SFAS 131, par. 35 (AC F30.134)]	_____	_____	_____
10. For all reporting entities subject to SFAS 131, including those that have a single reportable segment, are the following enterprise-wide items disclosed:			
a. Revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so? [SFAS 131, par. 37 (AC F30.136)]	_____	_____	_____
b. The following geographic information unless it is impracticable to do so:			
(1) Revenues from external customers (a) attributed to the reporting entity's country of domicile and (b) attributed to all foreign countries in total from which the reporting entity derives revenue?	_____	_____	_____
(2) Revenues from external customers attributed to an individual foreign country, if material?	_____	_____	_____
(3) The basis for attributing revenues from external customers to individual countries?	_____	_____	_____
(4) Long-lived assets other than financial instruments and deferred tax assets (a) located in the reporting entity's country of domicile and (b) located in all foreign countries in total in which the reporting entity holds assets?	_____	_____	_____
(5) Long-lived assets as described above in an individual foreign country, if material? [SFAS 131, par. 38 (AC F30.137)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Information about the extent of the reporting entity's reliance on its major customers, including the following:			
(1) If revenues from transactions with any single customer amount to 10 percent or more of the reporting entity's revenues, that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenue? [SFAS 131, par. 39 (AC F30.138)]	_____	_____	_____
11. If the information described in questions 10a and b above has not been disclosed because it is impracticable, is that fact disclosed? [SFAS 131, pars. 37 and 38 (AC F30.136 and .137)]	_____	_____	_____
CC. Stock Compensation Plans			
1. If the reporting entity continues to apply APB 25 in accounting for its stock-based compensation arrangements, is the pro forma net income and, if earnings per share are presented, pro forma earnings per share determined as if the fair-value based method (described in SFAS 123) had been applied in measuring compensation cost, disclosed for each year for which an income statement is presented? [SFAS 123, par. 45 (AC C36.144)]	_____	_____	_____
2. Is a description of the plan(s), including the general terms of awards under the plan(s) disclosed? [SFAS 123, par. 46 (AC C36.145)]	_____	_____	_____
3. Are the following disclosed for each year for which an income statement is presented:			
a. The number and weighted-average exercise prices of options for each of the following groups of options:			
(1) Those outstanding at the beginning of the year?	_____	_____	_____
(2) Those outstanding at the end of the year?	_____	_____	_____
(3) Those exercisable at the end of the year?	_____	_____	_____
(4) Those granted during the year?	_____	_____	_____
(5) Those exercised during the year?	_____	_____	_____
(6) Those forfeited during the year?	_____	_____	_____
(7) Those expired during the year?	_____	_____	_____
b. The weighted-average grant-date fair value of options granted during the year? (<i>Note:</i> That if the exercise prices of some options differ from the market price of the stock on the grant date, weighted-average fair values of options shall be disclosed separately for options whose exercise price (1) equals, (2) exceeds, or (3) is less than the market price of the stock on the grant date.)	_____	_____	_____
c. The number and weighted-average grant date-fair value of equity instruments other than options granted during the year?	_____	_____	_____
d. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information: (1) risk-free interest rate, (2) expected life, (3) expected volatility, and (4) expected dividends?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Total compensation cost recognized in income for stock-based employee compensation awards?	_____	_____	_____
f. The terms of significant modifications of outstanding awards? [SFAS 123, par. 47a–f (AC C36.146)]	_____	_____	_____
4. If the reporting entity grants options under multiple stock-based employee compensation plans, are the items in question 3 above disclosed separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the reporting entity's use of stock-based compensation? [SFAS 123, par. 47 (AC C36.146)]	_____	_____	_____
5. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:			
a. The range of exercise prices?	_____	_____	_____
b. The weighted-average exercise price?	_____	_____	_____
c. The weighted-average remaining contractual life? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____
6. If the range of exercise prices is wide (the highest exercise price exceeds approximately 150 percent of the lowest exercise price), are the exercise prices segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises and are the following disclosed for each range:			
a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?	_____	_____	_____
b. The number and weighted-average exercise price of options currently exercisable? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____

DD. Subsequent Events

1. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, disclosed? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05–.07, .09, and 561.01–.10 (AU 560.05–.07, .09, and 561.01–.10)]	_____	_____	_____
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EE. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Note: In December 1996, the FASB issued SFAS 127, *Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125*. As issued, SFAS 125 was effective for all transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996. SFAS 127 defers for one year the effective date (a) of paragraph 15 of SFAS 125 and (b) for repurchase agreement, dollar-roll, securities lending, and similar transactions, of paragraphs 9–12 and 237(b) of SFAS 125.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? [SFAS 125, par. 17a]	_____	_____	_____
2. Is the following disclosed if debt was considered to be extinguished by in-substance defeasance under the provisions of SFAS 76, <i>Extinguishment of Debt</i> , prior to the effective date of SFAS 125:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished at the end of the period so long as that debt remains outstanding? [SFAS 125, par. 17b]	_____	_____	_____
3. If assets are set aside after January 1, 1997 solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on those assets? [SFAS 125, par. 17c]	_____	_____	_____
4. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 125, par. 17d]	_____	_____	_____
5. For all servicing assets and servicing liabilities are the following disclosures made:			
a. The amounts of servicing assets or liabilities recognized and amortized during the period?	_____	_____	_____
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?	_____	_____	_____
c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 37 of SFAS 125?	_____	_____	_____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 125, par. 17e]	_____	_____	_____

FF. Troubled Debt Restructurings—Creditors

- | | | | |
|--|-------|-------|-------|
| 1. Is the amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings disclosed either in the body of the financial statements or in the notes thereto as of the date of each balance sheet presented?
[SFAS 15, par. 40b (AC D22.145)] | _____ | _____ | _____ |
|--|-------|-------|-------|

For restructurings in fiscal years beginning before December 16, 1994

- | | | | |
|---|--|--|--|
| 2. For outstanding receivables whose terms have been modified in troubled debt restructurings, are the following disclosed by major | | | |
|---|--|--|--|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
category either in the body of the financial statements or the notes thereto as of the date of each balance sheet presented:			
a. The aggregate recorded investment?	_____	_____	_____
b. The gross interest income that would have been recorded in the period then ended if those receivables had been current in accordance with their original terms and had been outstanding throughout the period or since origination?	_____	_____	_____
c. The amount of interest income on those receivables that was included in net income for the period? [SFAS 15, par. 40a (AC D22.145)]	_____	_____	_____

(See the *Financial Instruments* and *Impaired Loans* sections for possible additional disclosure requirements.)

GG. Troubled Debt Restructurings—Debtors

1. For a troubled debt restructuring occurring during the current period, do disclosures include:			
a. A description of the principal changes in terms, the major features of settlement, or both?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per-share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	_____	_____	_____
2. For periods after a troubled debt restructuring, do disclosures include:			
a. The extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____

FSP Section 6200

Auditors' Reports Checklist

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. Is each financial statements audited specifically identified in the introductory paragraph of the auditor's report?
[SAS 58, par. 6 (AU 508.06)] | _____ | _____ | _____ |
| 2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented?
[Generally Accepted] | _____ | _____ | _____ |
| 3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented?
[Generally Accepted] | _____ | _____ | _____ |
| 4. Is the report appropriately addressed?
[SAS 58, par. 9 (AU 508.09)] | _____ | _____ | _____ |

The following table identifies the address mentioned in the Independent Auditor's Report for 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Board of Directors and Stockholders	480	484	483	484
Stockholders	52	56	56	54
Board of Directors	45	41	41	40
Company	14	13	16	19
Other or no address	9	6	4	3
Total Companies	600	600	600	600

- | | | | |
|---|-------|-------|-------|
| 5. Does the auditor's report include appropriate: | | | |
| a. A title that includes the word "independent"?
[SAS 58, par. 8a (AU 508.08a)] | _____ | _____ | _____ |
| b. A statement that the financial statements identified in the report were audited?
[SAS 58, par. 8b (AU 508.08b)] | _____ | _____ | _____ |
| c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit?
[SAS 58, par. 8c (AU 508.08c)] | _____ | _____ | _____ |
| d. A statement that the audit was conducted in accordance with generally accepted auditing standards?
[SAS 58, par. 8d (AU 508.08d)] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
f. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
g. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
h. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par. 8h (AU 508.08h)]	_____	_____	_____
i. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____
j. The date of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

Practice Tip

Paragraph 8 of SAS 58 illustrates the form of the auditor's standard report on financial statements covering a single year and on comparative financial statements.

The following table identifies the location of the Independent Auditor's Report in relation to the financial statements and notes for 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Follow financial statements and notes	367	385	386	392
Precedes financial statements and notes	216	200	197	193
Between financial statements and notes	8	9	10	9
Other	9	6	7	6
Total Companies	600	600	600	600

- | | | | |
|---|-------|-------|-------|
| 6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered?
[SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)] | _____ | _____ | _____ |
| 7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)?
[SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____
10. If there is substantial doubt about the entity's ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

Practice Tip

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 79 for an example.

11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____
12. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____
13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
14. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? [SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.41)]	_____	_____	_____
15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____

Practice Tip

In December 1995, SAS 79, *Amendment to Statement on Auditing Standards No. 58, Reports on Audited Financial Statements*, was issued. This Statement amends SAS 58 to eliminate the requirement that, when certain criteria are met, the auditor add an uncertainties explanatory paragraph to the auditor's report. This Statement is effective for reports issued after February 29, 1996.

18. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion?

[SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]

19. If a qualified opinion is to be expressed because of a scope limitation:

- a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?

- b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of*?

- c. Is the situation described and referred to in both the scope and opinion paragraphs?

- d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself?

[SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]

Practice Tip

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

Note: Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

20. If an opinion is disclaimed because of a scope limitation:

- a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?

- b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?

- c. Does the report avoid identifying procedures that were performed?

- d. Is the scope paragraph omitted?

- e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report?

[SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
21. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
22. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
23. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____
<hr/> Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Departures From Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion. <hr/>			
24. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identifies the accompanying information?	_____	_____	_____
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	<hr/>	<hr/>	<hr/>

FSP Section 6300

Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist

This checklist is divided into two parts. Part I should be used by accountants engaged to compile financial statements and Part II should be used by accountants engaged to review financial statements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Part I—For Compilation Engagements			
1. Is the compilation report appropriately worded? [SSARS 1, par. 14 (AR 100.14)]	_____	_____	_____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, par. 14 (AR 100.14)]	_____	_____	_____
3. For compiled financial statements that contain departures ¹ from generally accepted accounting principles (GAAP) or, where applicable, an other comprehensive basis of accounting (OCBOA):			
a. If the departure is the omission of substantially all required disclosures, does the accountant's report clearly indicate such omission? [SSARS 1, pars. 19 and 21 (AR 100.19 and .21)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a few matters, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by GAAP (or OCBOA) Are Not Included"? [SSARS 1, par. 19 (AR 100.19)]	_____	_____	_____
c. If statements that omit substantially all required disclosures are prepared on a basis of accounting other than GAAP, and if such statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? [SSARS 1, par. 20 (AR 100.20)]	_____	_____	_____

Practice Tip

SAS 62, paragraphs 9 and 10 (AU 623.09 and .10), provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with an other comprehensive basis of accounting.

- | | | | |
|---|-------|-------|-------|
| d. If the financial statements contain a departure from GAAP or an OCBOA, is the report modified to disclose the departure?
[SSARS 1, pars. 39 and 40 (AR 100.39 and .40)] | _____ | _____ | _____ |
|---|-------|-------|-------|
-

¹ Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 (AR 300) compilation report on financial statements included in a prescribed form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) If the effects of the departure on the financial statements are determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
(2) If the effects are not determined, is this fact stated in the accountant's report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
4. If the accountant is not independent with respect to the entity for which financial statements are compiled, does the compilation report state "I am (we are) not independent with respect to XYZ Company"? [SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
5. Is the report dated? [SSARS 1, par. 15 (AR 100.15)]	_____	_____	_____
6. Does each page of the financial statements include a reference such as "See Accountant's Compilation Report"? [SSARS 1, par. 16 (AR 100.16)]	_____	_____	_____
7. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 40, fn. 18 (AR 100.40, fn. 18)]	_____	_____	_____
8. If the accountant compiles both the basic financial statements and other data that is presented for supplementary analysis purposes, does the compilation report also include the other data, indicating the degree of responsibility taken? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
9. If an audit engagement is changed to a review or compilation, does the report omit reference to:			
a. The original engagement?	_____	_____	_____
b. Any auditing or review procedures that may have been performed?	_____	_____	_____
c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
11. If compiled financial statements that omit substantially all of the disclosures required by GAAP are included among the comparative financial statements, do all the periods presented also omit such disclosures? [SSARS 2, par. 5 (AR 200.05)]	_____	_____	_____
a. If the prior-period financial statements do not omit the required disclosures, and the accountant is requested to compile statements			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
for the same period that do omit those disclosures, does the accountant's compilation report include an additional paragraph that indicates:			
(1) The nature of the previous service rendered (compilation, review, or audit)?	_____	_____	_____
(2) Date of the previous report? [SSARS 2, pars. 29 and 30 (AR 200.29 and .30)]	_____	_____	_____
12. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the continuing accountant's report on the prior period updated? [SSARS 2, par. 8 (AR 200.08)]	_____	_____	_____
13. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8, 11, and 12 (AR 200.08, .11, and .12)]	_____	_____	_____
14. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph include the appropriate language? [SSARS 2, pars. 14 and 15 (AR 200.14 and .15)]	_____	_____	_____
15. If the current-period financial statements were compiled and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language? [SSARS 2, par. 28 (AR 200.28)]	_____	_____	_____

Predecessor's Compilation Report

16. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:			
a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs 17–19 of SSARS 2?	_____	_____	_____
or			
b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16–19 (AR 200.16–.19)]	_____	_____	_____
17. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25 and 26 (AR 200.25 and .26)]	_____	_____	_____

Part II—For Review Engagements

Note: An accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he or she is not independent.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is the review report appropriately worded? [SSARS 1, par. 32 (AR 100.32)]	_____	_____	_____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, par. 32 (AR 100.32)]	_____	_____	_____
3. For reviewed financial statements that contain departures from GAAP or, where applicable, OCBOA (including the omission of required disclosures), is the report modified to disclose the departure in a separate paragraph? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	_____	_____	_____
4. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 40, fn. 18 (AR 100.40, fn. 18)]	_____	_____	_____
5. Is the report properly dated? [SSARS 1, par. 33 (AR 100.33)]	_____	_____	_____
6. Does each page of the financial statements include a reference such as "See Accountant's Review Report"? [SSARS 1, par. 34 (AR 100.34)]	_____	_____	_____
7. When accompanying information is presented with the financial statements, does the report clearly indicate degree of responsibility the accountant has taken with respect to such information? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
8. If the client does not provide a representation letter, does the accountant consider whether it is appropriate to issue a compilation report? [SSARS, pars. 44–49 (AR 100.44–.49)]	_____	_____	_____
9. If an audit engagement is changed to a review, does the report omit reference to:			
a. The original engagement?	_____	_____	_____
b. Any auditing or review procedures that may have been performed?	_____	_____	_____
c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
11. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the continuing accountant's report on the prior period updated? [SSARS 2, pars. 8–10 (AR 200.08–.10)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8, 11, and 12 (AR 200.08, .11 and .12)]	_____	_____	_____
13. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph include the appropriate language? [SSARS 2, pars. 14 and 15 (AR 200.14 and .15)]	_____	_____	_____
14. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25 and 26 (AR 200.25 and .26)]	_____	_____	_____
15. If the current-period financial statements were reviewed and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language? [SSARS 2, par. 28 (AR 200.28)]	_____	_____	_____

Predecessor's Review Report

16. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:			
a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs 17–19 of SSARS 2?	_____	_____	_____
or			
b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16–19 (AR 200.16–.19)]	_____	_____	_____

FSP Section 6400

Illustrative Financial Statements, Notes, and Auditor's Report

.01

Sample Auditor's Report

Independent Auditor's Report

To the stockholders of
ABC Company:

We have audited the accompanying consolidated balance sheets of ABC Company as of December 31, 19X2 and 19X1, and the related consolidated statements of income, comprehensive income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABC Company as of December 31, 19X2 and 19X1, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

Sample Financial Statements
ABC COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Assets <i>(In thousands)</i>		
Current Assets:		
Cash and cash equivalents	\$ 663	\$ 590
Marketable debt and equity securities (Note 3)	6,283	4,632
Accounts receivable (Note 4)	24,138	23,211
Inventories (Note 5)	20,152	21,825
Current deferred tax assets (Note 14)	503	449
Other current assets	416	333
Property held for resale (Note 6)	492	
Total Current Assets	<u>52,647</u>	<u>51,040</u>
Property, Plant, and Equipment, at cost (Note 7)	11,302	11,683
Property Held for Resale (Note 6)	2,273	1,230
Deferred Tax Assets (Note 14)	1,009	714
Other Assets (Note 8)	1,264	1,258
Total Assets	<u>\$68,495</u>	<u>\$65,925</u>
Liabilities and Stockholders' Equity <i>(In thousands, except share data)</i>		
Current Liabilities:		
Short-term borrowings (Note 9)	\$ 4,875	\$ 6,960
Current maturities of long-term debt (Note 10)	633	399
Accounts payable—trade	9,033	9,888
Accrued payroll and employee benefits	1,341	1,262
Other accrued liabilities	1,552	1,639
Total Current Liabilities	<u>17,434</u>	<u>20,148</u>
Long-Term Debt (Note 10)	12,517	11,189
Other Long-Term Liabilities	675	797
Commitments and Contingent Liabilities (Note 17)		
Total Liabilities	<u>34,626</u>	<u>35,265</u>
Stockholders' Equity (Notes 9, 11 and 12):		
Class A Common stock, issued 5,094,370 shares in 19X2 and 5,089,370 shares in 19X1	51	51
Paid-in capital	17,574	17,559
Retained earnings	14,240	11,828
Accumulated other comprehensive income	2,283	1,501
Treasury stock—at cost, Class A Common stock, 128,000 shares	<u>(279)</u>	<u>(279)</u>
Total Stockholders' Equity	<u>33,869</u>	<u>30,660</u>
Total Liabilities and Stockholders' Equity	<u>\$68,495</u>	<u>\$65,925</u>

See Notes to Consolidated Financial Statements.

ABC COMPANY AND SUBSIDIARIES
Consolidated Statements of Income
For the Two Years Ended December 31, 19X2

<i>(In thousands, except per share)</i>	<u>19X2</u>	<u>19X1</u>
Net Sales	<u>\$132,426</u>	<u>\$117,131</u>
Costs of goods sold	117,885	103,333
Selling, general, and administrative expenses	11,223	10,707
Interest expense	1,420	1,033
Other (income) expense	<u>(278)</u>	<u>(138)</u>
Total Costs and Expenses	<u>130,250</u>	<u>114,935</u>
Income Before Income Taxes	2,176	2,196
Income Tax Benefit (Note 14)	<u>(236)</u>	<u>(524)</u>
Net Income	<u>\$ 2,412</u>	<u>\$ 2,720</u>
Earnings Per Common Share (Note 13)	<u>\$ 0.49</u>	<u>\$ 0.55</u>

See Notes to Consolidated Financial Statements.

ABC COMPANY AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Two Years Ended December 31, 19X2

19X2

Net income		<u>\$2,412</u>
Other comprehensive income, net of tax		
Unrealized gains on securities		
Unrealized holding gains arising during period (net of income taxes of \$317)	\$952	
Less: reclassification adjustment for gains included in net income (net of income taxes of \$57)	<u>(170)</u>	<u>782</u>
Comprehensive income		<u><u>\$3,194</u></u>

19X1

Net income		<u>\$2,720</u>
Other comprehensive income, net of tax		
Unrealized gains on securities		
Unrealized holding gains arising during period (net of income taxes of \$41)	\$164	
Less: reclassification adjustment for gains included in net income (net of income taxes of \$31)	<u>(122)</u>	<u>42</u>
Comprehensive income		<u><u>\$2,762</u></u>

See Notes to Consolidated Financial Statements.

ABC COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Two Years Ended December 31, 19X2

<i>(In thousands)</i>	<u>19X2</u>	<u>19X1</u>
Cash Flows From Operating Activities:		
Net income	\$2,412	\$2,720
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Deferred income taxes	(433)	(614)
Depreciation and amortization	1,387	1,466
Gain (loss) on sales of marketable securities	(156)	(76)
Gain on sale of property, plant, and equipment	(266)	(318)
Change in operating assets and liabilities:		
Accounts receivable	(927)	(5,280)
Inventory	1,440	(2,120)
Other current assets	(83)	25
Other noncurrent assets	(86)	154
Accounts payable—trade	(855)	1,263
Accrued payroll and employee benefits	79	177
Other current liabilities	(87)	(119)
Other liabilities	(123)	(192)
Net Cash Provided (Used) by Operating Activities	<u>2,302</u>	<u>(2,914)</u>
Cash Flows From Investing Activities:		
Proceeds from sales of marketable securities	983	587
Purchases of marketable securities	(1,436)	(491)
Proceeds from sale of property, plant, and equipment	1,940	1,054
Capital expenditures on property, plant, and equipment	<u>(2,037)</u>	<u>(1,400)</u>
Net Cash Provided (Used) by Investing Activities	<u>(550)</u>	<u>(270)</u>
Cash Flows From Financing Activities:		
(Repayments) proceeds of revolving agreement borrowings	(2,085)	3,710
Exercise of stock options	15	
Repayment of long-term debt	(478)	(543)
Proceeds from issuance of long-term debt	869	
Net Cash Provided (Used) by Financing Activities	<u>(1,679)</u>	<u>3,167</u>
Net Increase (Decrease) in Cash and Cash Equivalents	73	(17)
Cash and Cash Equivalents at Beginning of Year	590	607
Cash and Cash Equivalents at End of Year	<u>\$ 663</u>	<u>\$ 590</u>
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$1,453	\$ 967
Income Taxes Paid	\$ 94	\$ 39

During 19X2 and 19X1, the Company financed certain capital expenditures and related maintenance agreements totaling \$2,040,500 and \$207,500, respectively, through the issuance of capital leases.

See Notes to Consolidated Financial Statements.

ABC COMPANY AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Two Years Ended December 31, 19X2

<i>(In thousands)</i>	<i>Class A</i>	<i>Paid-in</i>	<i>Retained</i>	<i>Accumulated</i>	<i>Treasury</i>	
	<i>Common Stock</i>	<i>Capital</i>	<i>Earnings</i>	<i>Other Comprehensive Income</i>	<i>Stock</i>	<i>Total</i>
Balance, January 1, 19X1	\$51	\$17,559	\$ 9,108	\$1,459	\$(279)	\$27,898
Net Income			2,720			2,720
Other comprehensive income				42		42
Balance, December 31, 19X1	51	17,559	11,828	1,501	(279)	30,660
Net Income			2,412			2,412
Other comprehensive income				782		782
Exercise of option to purchase 5,000 shares of Class A Common stock (Note 11)		15				15
Balance, December 31, 19X2	<u>\$51</u>	<u>\$17,574</u>	<u>\$14,240</u>	<u>\$2,283</u>	<u>\$(279)</u>	<u>\$33,869</u>

See Notes to Consolidated Financial Statements.

ABC COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations. ABC Company is engaged in the manufacture, fabrication, and distribution of rail, construction, and tubular products.

The Company's rail business provides a full line of new and used rail, trackwork, and accessories to railroads, mines, and industry. The Company also designs and produces bonded rail joints, power rail, track fasteners, catenary systems, coverboards, and special accessories for mass transit and other rail systems.

The Company's construction business sells and rents steel sheet piling and H-bearing pile for foundation and earth retention requirements and pile driving equipment and accessories for driving piling. In addition, the Company sells bridge decking, expansion joints, sign structures, and other products for highway construction and repair.

The Company's tubular business supplies pipe and pipe coatings for pipelines and utilities. Additionally, the Company manufactures spiralweld pipe for water transmission lines, foundation piling, slurry lines, and many other applications. The Company also produces pipe-related products for special markets, including water wells and irrigation.

The Company markets its products directly in all major industrial areas of the United States through a national sales force.

Basis of Financial Statement Presentation. The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and accounts have been eliminated.

Cash Equivalents. Holdings of highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Inventories. Inventories are valued at the lower of the last-in, first-out (LIFO) cost or market except for other inventories which are valued at average cost or market, whichever is lower and represented 11% of total inventory in 19X2 and 19X1.

Property, Plant, and Equipment. Property, plant, and equipment are recorded at cost less depreciation and amortization. Depreciation and amortization are primarily accounted for on the straight-line method based on estimated useful lives. The amortization of leasehold improvements is based on the shorter of the lease term or the life of the improvement. Betterments and large renewals which extend the life of the asset are capitalized whereas maintenance and repairs and small renewals are expensed as incurred.

Derivatives. The Company enters into interest rate swap agreements in order to best manage financial risk by providing a hedge against exposures to changes in interest rates on variable rate debt. Gains and losses on changes in interest rates are recognized as they occur.

Environmental Remediation. The Company accrues environmental remediation costs if it is probable that an asset has been impaired or a liability incurred at the financial statement date and the amount can be reasonably estimated. Environmental compliance costs are expensed as incurred. Certain environmental costs are capitalized based on estimates and depreciated over their useful lives.

Sales. Revenue is recognized in the financial statements (and the customer billed) either when materials are shipped from stock or when the vendor bills the Company for the order. Net sales are arrived at by deducting discounts, freight, and sales taxes from gross sales.

Income Taxes. The Company uses the asset and liability method as identified in SFAS 109, *Accounting for Income Taxes*.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation. In accordance with the provisions of SFAS 123, the Company follows the intrinsic value based method of accounting as prescribed by APB 25, *Accounting for Stock Issued to Employees*, for its stock-based compensation. Accordingly, no compensation cost is recognized.

Note 2: Related-Party Transactions

The Company has an agreement with DEF Company whereby DEF will provide certain management services to the Company through 2002 in return for an annual fee plus agreed-upon allocated and out-of-pocket expenses. The Company's chairman and chief executive officer is also the chairman and principal shareholder of DEF. The services provided include consultation and direct management assistance with respect to operations, strategic planning, and other aspects of the business of the Company. Fees and expenses paid to DEF for these services under the agreement amounted to \$146 and \$169 for the years ended December 31, 19X2 and 19X1, respectively.

During the years ended December 31, 19X2 and 19X1, the Company paid approximately \$84 and \$76, respectively, in fees to charter an aircraft owned by a company in which the chairman and chief executive officer is the principal shareholder. Management believes that these charter fees were equivalent to those that would be paid under an arm's-length transaction.

A member of the Company's Board of Directors served as a consultant to the Company on various strategic and business issues. Fees paid for such services by the Company during the years ended December 31, 19X2 and 19X1 were \$43 and \$56, respectively.

Note 3: Marketable Debt and Equity Securities

Cost and fair value of marketable debt and equity securities at December 31, 19X2 and 19X1, are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 19X2:				
Available for sale:				
U. S. Treasury notes	\$4,163	\$ —	\$ —	\$4,163
Corporate debt securities	961	253	58	1,156
Equity securities	302	729	67	964
Total	<u>\$5,426</u>	<u>\$982</u>	<u>\$125</u>	<u>\$6,283</u>
December 31, 19X1:				
Available for sale:				
U.S. Treasury notes	\$2,767	\$ —	\$ —	\$2,767
Corporate debt securities	1,219	64	57	1,226
Equity securities	831	117	309	639
Total	<u>\$4,817</u>	<u>\$181</u>	<u>\$366</u>	<u>\$4,632</u>

U.S. Treasury notes mature in 19X2. The change in net unrealized holding gains on securities available for sale in the amount of \$1,042 and \$52 have been charged to other comprehensive income for the years ended December 31, 19X2 and 19X1, respectively.

Note 4: Accounts Receivable

At 19X2 and 19X1, accounts receivable is comprised of the following:

	<u>19X2</u>	<u>19X1</u>
Trade receivables	\$24,983	\$23,936
Less: Allowance for doubtful accounts	900	808
Plus: other receivables	55	83
Total	<u>\$24,138</u>	<u>\$23,211</u>

Credit is extended to customers only after an evaluation of the customer's financial condition and generally collateral is not required.

Note 5: Inventories

At 19X2 and 19X1, inventories are comprised of the following:

	<u>19X2</u>	<u>19X1</u>
Finished goods	\$16,785	\$14,248
Work in process	3,343	7,121
Raw materials	1,330	1,485
Total current cost	21,458	22,854
Less: Reserve for decline to market value	300	300
Reduction of costs to LIFO stated values	1,006	729
Total	<u>\$20,152</u>	<u>\$21,825</u>

Note 6: Property Held for Resale

Property held for resale consists of 5 properties and machinery and equipment. These are itemized as follows:

	<u>19X2</u>	<u>19X1</u>
Property Location:		
Colton, PA	\$1,460	\$
Princeton, NJ	493	626
Columbus, MS	307	307
Houston, TX	131	131
Springfield, IL	178	
Other	196	166
Total property held for resale	2,765	1,230
Less: Property with sales commitments within one year	492	
Total	<u>\$2,273</u>	<u>\$1,230</u>

The Colton, Pennsylvania, location produces spiralweld pipe used for water transmission and other applications. During 19X2, the Company decided that this product did not meet the Company's long-term strategic goals. The assets of this operation include machinery and equipment, buildings and leasehold improvements. During 19X2, the location generated net sales and operating profit of approximately \$5,150,000 and \$150,000, respectively, which are included in the Company's tubular segment. The Company is currently negotiating with several buyers. However, the outcome of these discussions is uncertain at this time.

The Princeton, New Jersey, location formerly produced pipe and was used for yard storage. Assets of the location consist of land and land improvements no longer used in the Company's business. The Company anticipates disposing of these assets during 19X3.

The Columbus, Mississippi, location was formerly used for yard storage. Assets of the location consist of land no longer used in the Company's business. The land is currently being leased to a third party. The Company does not anticipate disposing of the land during 19X3.

The Houston, Texas, location was formerly a pipe coal tar coating facility. Assets of the location consist of land no longer used in the Company's business. The land has been listed for sale, although no assurances can be given that the land will be sold during 19X3.

The Springfield, Illinois, location produces couplings used in the Company's threaded products business and is included in the tubular products business segment. The assets of this operation include machinery and equipment, buildings and land. During 19X2, the Company received an offer from a third party to buy the facility and to produce couplings for use in the Company's operations. The Company has entered into an operating lease agreement with the third party for six months with an option to buy. If the third party does not purchase the property, the operating lease converts to a capital lease for five years based on a market value of \$400,000, with an option to buy. Separate net sales and operating profits for this location cannot be identified.

Other consists of various machinery and equipment.

Note 7: Property, Plant, and Equipment

At 19X2 and 19X1, property, plant, and equipment is comprised of the following:

	<u>19X2</u>	<u>19X1</u>
Land	\$ 3,350	\$ 3,350
Land improvements and leaseholds	1,934	2,546
Buildings	1,282	2,404
Machinery and equipment (including \$3,864 and \$2,057 of equipment under capitalized leases in 19X2 and 19X1, respectively)	11,931	15,712
Rental pile driving equipment	3,126	3,436
Construction in progress	158	111
Total	<u>21,781</u>	<u>27,559</u>
Less:		
Accumulated depreciation	9,647	15,317
Accumulated amortization	832	559
Net property, plant, and equipment	<u>\$11,302</u>	<u>\$11,683</u>

Property, plant, and equipment include certain capitalized leases. The following is a schedule, by year, of the future minimum payments under these leases, together with the present value of the net minimum payments as of December 31, 19X2:

<i>(In thousands)</i>	<u>Amount</u>
Year ending December 31,	
19X3	\$ 859
19X4	832
19X5	783
19X6	588
19X7 and thereafter	<u>747</u>
Total minimum lease payments	3,809
Less amount representing interest	<u>659</u>
Total present value of minimum payments	3,150
Less current portion of such obligations	<u>633</u>
Long-term obligations with interest rates ranging from 6.92% to 11.42%	<u>\$2,517</u>

Note 8: Other Assets

At December 31, 19X2 and 19X1, other assets include notes receivable and accrued interest totaling \$948,000 and \$786,500, respectively, from investors in a private corporation. The notes, which are recorded at face value, are due if there is a change in ownership of the private corporation or

March 31, 19X7, whichever occurs earlier. Additionally, the Company owns stock in the private corporation which is recorded at historical cost of \$96,500.

Note 9: Short-Term Borrowings

Effective November 1, 19X2, the Company renegotiated its \$22,500,000 revolving credit agreement. The interest rate is, at the Company's option, based on the prime rate, the domestic certificate of deposit rate (CD rate) or the Euro-bank rate. The interest rates are adjusted quarterly based on the fixed charge coverage ratio defined in the agreement. The ranges are prime to prime plus 0.25%, the CD rate plus 0.45% to the CD rate plus 1.125%, and the Euro-bank rate plus 0.45% to the Euro-bank rate plus 1.125%. Borrowings under the agreement, which expires July 1, 19X9, are secured by accounts receivable and inventory.

This agreement includes financial covenants requiring a minimum net worth, a fixed charge coverage ratio, a leverage ratio and a current ratio. The agreement also places restrictions on dividends, investments, capital expenditures, indebtedness, and sales of certain assets. As of December 31, 19X2, the Company was in compliance with all of the agreement's covenants. At December 31, 19X2, the Company had borrowed \$14,875,000 under the agreement of which \$10,000,000 was classified as long-term (see Note 10). Under the agreement, the Company had approximately \$7,061,000 in unused borrowing commitment at December 31, 19X2. At December 31, 19X2, \$12,485,000 was available for future dividend payments.

Note 10: Long-Term Debt and Related Matters

Long-term debt at December 31, 19X2 and 19X1, consists of the following:

<i>(In thousands)</i>	<u>19X2</u>	<u>19X1</u>
Revolving Credit Agreement with weighted average interest rate of 6.57% at December 31, 19X2, and 7.33% at December 31, 19X1, expiring July 1, 19X9	\$10,000	\$10,000
Lease obligations payable in installments through 20Y2 with a weighted average interest rate of 8.0% at December 31, 19X2, and 9.45% at December 31, 19X1	<u>7,150</u>	<u>4,629</u>
Subtotal	<u>17,150</u>	<u>14,629</u>
Less current maturities	<u>633</u>	<u>399</u>
Total	<u>\$16,517</u>	<u>\$14,230</u>

The \$10,000,000 revolving credit borrowings included in long-term debt were obtained under the revolving loan agreement discussed in Note 9 and are subject to the same terms and conditions. This portion of the borrowings is classified as long-term because the Company does not anticipate reducing the borrowings below \$10,000,000 during 19X3.

During 19X2, the Company entered into an interest rate swap agreement to reduce the impact of changes in interest rates on a portion of its revolving credit borrowings. The LIBOR interest rate on the \$5,000,000 swap agreement, which expires June 19X9, is 6.142%. The Company believes that the credit and market risks associated with this agreement are not material. Any additional interest expense incurred under the agreement is accrued currently and paid quarterly.

The maturities of long-term debt for each of the succeeding five years subsequent to December 31, 19X2, are as follows: 19X3—\$633,000; 19X4—\$656,000; 19X5—\$661,000; 19X6—\$10,515,000; and 19X7 and beyond—\$1,085,000.

Note 11: Stockholders' Equity

At December 31, 19X2 and 19X1, the number of authorized and issued Class A and Class B shares and the related par value and dividends paid are as follows:

	<u>19X2</u>	<u>19X1</u>
Class A common stock, authorized	10,000	10,000
Class B common stock, authorized	696	696
Class A common stock, issued	5,094	5,089
Class B common stock, issued	0	0
Class A common stock, outstanding	4,966	4,961
Class B common stock, outstanding	0	0
Class A common stock, per share par value	\$ 0.01	\$ 0.01
Class B common stock, per share par value	\$ 0.01	\$ 0.01
Cash dividends paid on common stock	0	0

The Class A and B stock are identical except the Class B stock does not have stockholder voting rights and such stockholders are entitled to one vote per share on issues such as consolidation or merger of the Company. Class B is convertible on demand into Class A stock on a share-for-share basis.

Note 12: Stock Option Plans

Executives and other key employees have been granted options to purchase common shares of the Company's stock under the Long-Term Incentive Plan (Plan) of the Company which was adopted in the 19W5. In accordance with the terms of the Plan, the option's maximum term is ten years. Options granted vest ratably over a three-year period. The options include limited stock appreciation rights under which holders have the right, in the event common shares are purchased pursuant to a third party tender offer or in the event a merger or similar transaction in which the Company shall not survive as a publicly held corporation is approved by the Company's shareholders, to relinquish the option and to receive from the Company an amount per share equal to the excess of the price payable for a common share in such offer or transaction over the option price per share.

In accordance with the provisions of SFAS 123, the Company applies APB 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS 123, net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below (in thousands except per share amounts):

	<u>19X2</u>	<u>19X1</u>
Net Income—as reported	\$2,412	\$2,720
Net income—pro forma	\$1,953	\$2,359
Earnings per share—as reported	\$ 0.49	\$ 0.55
Earnings per share—pro forma	\$ 0.39	\$ 0.48

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected dividend yield	2.50%
Expected stock price volatility	45.0%
Risk-free interest rate	6.00%

The weighted average fair value of options granted during 19X2 is \$19.29 per share.

The Plan provides that, unless otherwise set forth in the option agreement, options are exercisable in installments of up to 25% annually beginning one year from date of grant. Stock to be offered

under the Plan may be authorized but unissued Common stock or previously issued shares which have been reacquired by the Company and held as Treasury shares. At December 31, 19X2 and 19X1, Common stock options outstanding under the Plan had option prices ranging from \$22.63 to \$36.00, with a weighted average price of \$23.35 and \$33.33 per share, respectively.

The Option Committee of the Board of Directors which administers the Plan may, at its discretion, grant stock appreciation rights at any time prior to six months before an option's expiration date. Upon exercise of such rights, the participant surrenders the exercisable portion of the option in exchange for payment (in cash and/or Common stock valued at its fair market value) of an amount not greater than the spread, if any, by which the average of the high and low sales prices quoted in the Over-the-Counter Exchange on the trading day immediately preceding the date of exercise of the stock appreciation right exceeds the option price. No stock appreciation rights were issued or outstanding during 19X2 or 19X1.

Options exercised during 19X2 totaled 5,000 shares at an exercise price of \$3.00 per share. There were no options exercised during 19X1.

Certain information for the two years ended December 31, 19X2, relative to employee stock options is comprised of the following:

	<u>19X2</u>	<u>19X1</u>
Number of shares under Incentive Plan option:		
Outstanding at beginning of year	487,500	362,500
Granted	12,500	128,000
Canceled	(12,500)	(3,000)
Exercised	<u>(5,000)</u>	<u> </u>
Outstanding at end of year	<u>482,500</u>	<u>487,500</u>
Exercisable at end of year	<u>374,000</u>	<u>306,250</u>
Number of shares available for future grant:		
Beginning of year	<u>158,125</u>	<u>33,125</u>
End of year	<u>158,125</u>	<u>158,125</u>

Note 13: Earnings Per Common Share

Earnings per common share are computed by dividing net income by the average number of Class A Common shares and common stock equivalents outstanding during the year. The weighted average number of Class A Common shares outstanding during the year ended December 31, 19X2, were approximately 4,963,500 and approximately 4,961,500 during the year ended 19X1.

Common stock equivalents are the net additional number of shares which would be issuable upon the exercise of the outstanding common stock options (see Note 11), assuming that the Company reinvested the proceeds to purchase additional shares at market value. Common stock equivalents had no material effect on the computation of earnings per share for the two years ended December 31, 19X2.

Note 14: Income Taxes

At December 31, 19X2, the Company has available net operating loss carryforwards of approximately \$3,900,000 for federal income tax purposes that expire 20Y1. The federal carryforwards resulted from losses generated in 19W6. The tax benefit of net operating loss carryforwards available for state income tax purposes was approximately \$400,000 as of December 31, 19X2. The Company also has *alternative* minimum federal tax credit carryforwards at December 31, 19X2, of approximately \$500,000. For financial purposes, a valuation allowance of \$100,000 has been recognized to offset the deferred tax assets related to the state income carryforwards. Deferred

income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 19X2 and 19X1, are as follows:

<i>(In thousands)</i>	<u>19X2</u>	<u>19X1</u>
Deferred tax liabilities:		
Depreciation	\$ 614	\$ 301
Other—net	<u>(31)</u>	<u>34</u>
Total deferred tax liabilities	<u>583</u>	<u>335</u>
Deferred tax assets:		
Net operating loss carryforwards	1,709	2,248
Tax credit carryforwards	486	443
Other—net	<u> </u>	<u>157</u>
Total deferred tax assets	2,195	2,848
Valuation allowance for deferred tax assets	<u>100</u>	<u>1,350</u>
Deferred tax assets	<u>2,095</u>	<u>1,497</u>
Net deferred tax assets	<u>\$1,512</u>	<u>\$1,163</u>

The valuation allowance for deferred tax assets was reduced by \$1,249,550 and \$1,187,000 during 19X2 and 19X1, respectively.

Significant components of the provision for income taxes are as follows:

<i>(In thousands)</i>	<u>19X2</u>	<u>19X1</u>
Current:		
Federal	\$ 51	\$ 41
State	<u>63</u>	<u>49</u>
Total current	<u>114</u>	<u>90</u>
Deferred:		
Federal	(170)	(591)
State	<u>(180)</u>	<u>(23)</u>
Total deferred	<u>(350)</u>	<u>(614)</u>
Total income tax benefit	<u>\$(236)</u>	<u>\$(524)</u>

The reconciliation of income tax computed at statutory rates of income tax benefit is as follows:

	<u>19X2</u>	<u>19X1</u>
Statutory rate	34.0%	34.0%
State income tax	(3.0)	0.7
Nondeductible expenses	3.0	3.1
Net operating loss	(22.9)	(28.6)
Change in valuation reserve	(30.2)	(25.5)
Prior period tax	13.2	(11.5)
Other	<u>(1.3)</u>	<u>3.9</u>
	<u>(7.2)%</u>	<u>(23.9)%</u>

Note 15: Rental and Lease Information

The Company leases certain plant facilities, office facilities, and equipment. Rental expense for the years ended December 31, 19X2 and 19X1, amounted to \$933,500 and \$846,500, respectively.

At December 31, 19X2, the Company is committed to total minimal rental payments under all noncancellable operating leases of \$708,500. Generally, these leases include escalation clauses.

The minimum future rental commitments are payable as follows: 19X3—\$431,500; 19X4—\$188,500; 19X5—\$43,500; 19X6—\$35,000; and 19X7—\$10,000.

Note 16: Retirement Plans

Substantially all of the Company's hourly paid employees are covered by one of the Company's noncontributory, defined benefit plans. Hourly nonunion employees are also covered by a defined contribution plan with contributions fixed at \$0.12 per hour worked. Substantially all of the Company's salaried employees are covered by a defined contribution plan established by the Company.

Benefits for hourly employees over age 21 are generally based on hours of service. The salaried plan for employees over age 21 is based on years of qualifying service.

The Company's funding policy for defined benefit plans is to contribute the minimum required by the Employee Retirement Income Security Act of 1974. Net periodic pension cost for the two years ended December 31, 19X2, is summarized as follows:

<i>(In thousands)</i>	<u>19X2</u>	<u>19X1</u>
Service cost	\$36	\$39
Interest cost	60	55
Actual return on plan assets	(66)	(60)
Other	(1)	(2)
Net periodic pension cost	<u>\$29</u>	<u>\$32</u>

The hourly plan assets consist of allocated and unallocated insurance contracts. The following table presents a reconciliation of the funded status of the defined benefit plans at December 31, 19X2 and 19X1, with the accrued pension cost included in other current liabilities on the Company's balance sheets:

<i>(In thousands)</i>	<u>19X2</u>	<u>19X1</u>	
	<u>Underfunded Plan</u>	<u>Overfunded Plans</u>	<u>Underfunded Plan</u>
Projected benefit obligation:			
Vested benefits	\$ 905	\$553	\$134
Nonvested benefits	34	13	12
Total projected benefit obligation	<u>939</u>	<u>566</u>	<u>146</u>
Fair value of plan assets	<u>859</u>	<u>702</u>	<u>95</u>
Excess (deficit) of plan assets over projected benefit obligation	(80)	137	(51)
Unrecognized net transition asset	(60)	(63)	(3)
Unrecognized prior service cost	44	4	43
Unrecognized net (gain) loss	16	(133)	(10)
Adjustment for minimum liability	<u>(63)</u>		<u>(30)</u>
Accrued pension cost	<u>\$ (143)</u>	<u>\$ (55)</u>	<u>\$ (51)</u>

The Company's defined contribution plan, available to substantially all salaried employees, contains a matched savings provision that permits both pretax and after tax employee contributions. Participants can contribute from 2% to 15% of their annual compensation and receive a 50% matching employer contribution on up to 6% of their annual compensation.

Further, the plan requires an additional matching employer contribution, based on the ratio of the Company's pretax income to equity, up to 50% of 6% of the employee's annual compensation. Additionally, the Company contributes 1% of all salaried employees' annual compensation to the plan without regard for employee contribution. The Company may also make additional discretionary contributions to the plan. The defined contribution plan expense was \$363,500 in 19X2 and \$355,000 in 19X1.

Assumptions used to measure the projected benefit obligation and develop net periodic pension costs for the two years ended December 31, 19X2, were:

	<u>19X2</u>	<u>19X1</u>
Assumed discount rate	7%	8%
Expected rate of return on plan assets	8%	8%

As a result of the change in the discount rate, the projected benefit obligation as of December 31, 19X2 is approximately \$135,000 more than it would have been using the previous 8% discount rate. The change had no effect on net pension cost in 19X2.

Note 17: Commitments and Contingent Liabilities

The Company is subject to laws and regulations relating to the protection of the environment. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts, in the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial condition, competitive position or capital expenditures of the Company. However, the Company's efforts to comply with increasingly stringent environmental regulations may have an adverse effect on the Company's future earnings.

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

At December 31, 19X2, the Company had outstanding letters of credit of approximately \$564,000.

Note 18: Risks and Uncertainties

The Company's future operating results may be affected by a number of factors. The Company is dependent upon a number of major suppliers. If a critical supplier had operational problems or ceased making material available to the Company, operations could be adversely affected. In particular, approximately 70% of the materials sold by the construction products segment are purchased from one supplier. The Company's operations are in part dependent on governmental funding of infrastructure projects. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on the operating results of the Company. The Company's operations results may also be affected by the weather.

Note 19: Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts Receivable and Accounts Payable. The carrying amount of accounts receivable and accounts payable in the balance sheet approximates fair value.

Short-Term and Long-Term Debt. The carrying amount of the revolving credit facility approximates fair value.

The carrying amounts of the Company's financial instruments at December 31, 19X2, approximate fair value with the exception of the interest rate swap agreement. At December 31, 19X2, the interest rate swap agreement had no book value but had an intrinsic value of (\$130,000) if the swap agreement had been canceled according to its terms on December 31, 19X2.

Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA Accounting and Auditing Publications Team, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

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